THE

House of Assembly Debates

(UNOFFICIAL REPORT)

PARLIAMENT 2003 – 2008

HOUSE OF ASSEMBLY

Tuesday, October 24, 2006

Pursuant to the adjournment, the House of Assembly met at 10.17 a.m. on Tuesday, October 24, 2006.

PRESENT

His Honour I. A. ROETT, G.C.M., B.A., Dip. Ed. (Speaker)

His Honour J. M. EDGHILL, J.P.(Deputy Speaker)

Mr. D. J. H. THOMPSON, LL.B.(Hons.)(Leader of the Opposition)

Hon. Dame B. A. MILLER, D.A. B.C.H., (Senior Minister, and Minister of Foreign Affairs and Foreign Trade)

Mr. G. W. PAYNE, Q.C.

Hon. R. C. EASTMOND, B.A.(Hons.) Dip. Ed., LL.B.

(Hons.) (Lon.), LL.M. (Leic.), J.P. (Minister of Labour and the Civil Service)

Hon. G. A. CLARKE, B.Sc., Dip. Ed.,J.P. (Minister of Public Works and Transport)

Mr. R. D. MARSHALL (Chairman of Committees)

Hon. A. P. WOOD, B.Sc., M.Sc., M.Phil. J.P. (Minister

of Education, Youth Affairs and Sports)

Hon. R. R. FARLEY, B.Sc., J.P.,(Minister of Housing and Lands)

Hon. Miss C. Y. FORDE, J.P. (Minister of State, Ministry of Education, Youth Affairs and Sports)

Mr. R. D. JONES. B.A. (Hons.), M.A. Ed. J.P.

Hon. H. F. LASHLEY (Minister of Social Transformation)

Mr. R. St. C. TOPPIN, LL.B. (Hons.)

Mr. D. St. E. KELLMAN

Hon. Miss H. E. THOMPSON, LL.B. (Minister of Energy and the Environment)

Hon. Miss M. A. MOTTLEY, Q.C., LL.B. (Minister of Economic Affairs and Development)

Hon. T. A. PRESCOD, B.A. (Minister of Social Transformation)

Hon. J. J. S. ATHERLEY, B.A., B.Sc., J.P. (Minister of State, Prime Minister's Office)

Dr. D. C. ESTWICK, B.Sc., M.B., B.S.

Hon. C. A. MASCOLL, B.Sc. (Econ.) (Hons.), M.A. (Public Finance)(Minister of State, Ministry of Finance)

Mr. M. A. LASHLEY, LL.B. (Hons.)

Hon. K. D. SYMMONDS, B.A., LL.B.(Minister of State, Ministry of Foreign Affairs and Foreign Trade)

Dr. W. F. DUGUID, B.D.S. (Comm.), F.D.S., FDRCS., J.P.

Mr. R. L. SEALY, B.Sc., M.B.A.

Prayers were taken by Reverend Canon Ivan Harewood.

Mr. SPEAKER: The House is now in session.

MINUTES

Mr. SPEAKER: The Minutes of Tuesday, October 17, 2006.

Hon. R. C. EASTMOND: Mr. Speaker, I beg to move that the Minutes for the Honourable the House of Assembly for its meeting of Tuesday, October 17, 2006, which Minutes have been circulated, be taken as read.

Hon. R. R. FARLEY: I beg to second that, Sir.

MR. SPEAKER: If there are no corrections or observations, then let these Minutes stand confirmed.

PAPERS

Hon. R.C. EASTMOND: Mr. Speaker, on behalf of the Honourable Minister of Finance, I am commanded to lay the following:

1. Value Added Tax (Refund) (Coral Isle Rentals) Order, 2006.

2. The Special Development Area (Barbados Investment (Properties) Inc.) Notice 2006.

Hon. R.C. EASTMOND: Mr. Speaker, I am commanded to lay the following:

1. The Annual Report of the Fair Trading Commission for the year ending March 31, 2006.

Hon. R.C. EASTMOND: Mr. Speaker, on behalf of the Honourable Minister of Energy and Environment, I am commanded to lay the following:

1. The Annual Report and Financial Statement of the Caves of Barbados Limited for the year 2003.

Hon. A.P. WOOD: Mr. Speaker, I am commanded to lay the following:

1. Audited Financial Statements and Annual Reports on the Activities of the Board of Management for the period 1998 - 2004 for the following:

The Christ Church Foundation School. Harrison College

Princess Margaret Secondary School

Springer Memorial School

St. James Secondary School

St. Lucy Secondary School

St. George Secondary School

The Lester Vaughan Secondary School

2. Annual Report of the Activities of the Board of Management of the Combermere School for the period 2003-2004.

H113/10:20

Sequence 2

Tuesday, October 24, 2006

ORAL REPLIES TO QUESTIONS

Hon. R.R. FARLEY: Sir, I beg to give notice that the reply to Parliamentary Question No. 14 asked by Dr. W.F. Duguid on January 13, 2004, is ready.

SUSPENSION OF STANDING ORDERS

Hon. R.C. EASTMOND: Mr. Speaker, I beg to move that the following Standing Orders Nos. 6,16,18,20, 42(5), 43 and 44 be suspended for the remainder of today's Sitting.

Hon. R.R. FARLEY: I beg to second that, Sir.

The question was put and resolved in the affirmative without division.

GOVERNMENT BUSINESS

ORDER NO. 15 – SECOND READING OF THE DEPOSIT INSURANCE FUND BILL, 2006.

Mr. SPEAKER: The Honourable Member for St. Michael North West.

Mr. C.A. MASCOLL: Mr. Speaker, I rise, first, to seek the House's permission to do Orders, 15,16 and 18 jointly, since there are all related Bills. I seek the House's permission to do such to deliver on the Deposit Insurance Bill, the Second Reading of the Financial Institutions (Amendment) Bill, 2006, and the Second Reading of the Central Bank (Amendment) Bill, 2006, since there are all very much related.

Mr. SPEAKER: If this is the will of the House, then so be it.

The question was put and resolved in the affirmative without division.

Mr. SPEAKER: Honourable Member, proceed, please.

Mr. C.A. MASCOLL: Mr. Speaker, every institution and, perhaps, every individual in life needs to establish a set of principles upon which that institution or individual operates. Sir, when it relates to the question of tax policy, we speak to principles of justice, fairness and equity as it relates to the building of a just society, a prosperous society; we talk about political democracy, economic equality and social justice.

In this debate today, as we seek to establish a Deposit Insurance Bill or system for Barbados, the principles upon which we will seek to establish that system are moral hazard and adverse selection, which I will discuss in detail later. It is important that ultimately, the integrity of this system, its credibility, will be based on the design of the system, the level of independence, the clarity of the legal structure that we seek to put in place, and the quality of its staff and leadership. Therefore, in establishing the Deposit Insurance system for Barbados, I will first seek to put in context why we need to build an infrastructure that can satisfy the principles of fairness, justice and equity.

Sir, first of all, we need to ensure that the current policy in business environment is supportive of the market operations of the financial system. We must be clear, in establishing the principles upon which we are putting this Deposit Insurance system in place, that the objectives must be realistic. Therefore, when we look at the introduction of the Bill, we see that it is to establish a Deposit Insurance Fund for the protection of depositors, and to establish a corporation to manage the Deposit Insurance Fund. Sir, what is as critical, as that, is to ensure that the environment in which we are seeking to put this system in place is credible, stable and certainly in the interest of the wider consuming public of Barbados.

Sir, the realism of this system comes in the fact that the proposed limit of $25 000 for a depositor, would cover 95 per cent of all the depositors in Barbados. That is, in fact, extremely credible.

In addition, you would recognise that $25 000 as a limit exceeds the per capita income of Barbados. From that standpoint alone, the coverage is extremely wide. In fact, $25 000 is about 1.5 per cent or 1.5 more times the per capita income of Barbados.

Sir, there is also another stunning statistic, that by next year, 2007, the tax free threshold would be $25 000 in Barbados. Therefore, you can see the extent to which we are seeking to ensure that the smaller man in Barbados is in fact guaranteed the support of this Government.

Mr. Speaker, to make sure that a scheme does contribute the stability of the financial system, it has to achieve a few objectives. One, it must reduce any incentive for the depositors to withdraw funds during the periods of reduced confidence. If there is a period in Barbados where there is some concern about the financial system, this Deposit Insurance Fund will ensure that depositors do not feel the need to withdraw funds from the system and seek to destabalise the system. Therefore, to that extent, there is some degree of coverage as is the case in the insurance business.

Sir, we also have to make sure that we have a credible system that guarantees prompt payment to qualifying depositors to minimise losses. If, for whatever reason, there is some threat to the financial system in Barbados, we must be able to cover our depositors. As I said before, the fund covers 95 per cent of all depositors in Barbados, because the upper limit is $25 000 of coverage.

We also have to be able to intervene effectively, where member institutions show signs of weakness. If there is a proper regulatory system in place, then long before it happens, the regulatory system would know where there are stresses in the financial system that have to be addressed by the Central Bank, or some other supervisory body in Barbados.

Mr. Speaker, I want to caution that a Deposits Insurance system is designed to protect insured depositors from the consequence of bank failure, but it is not designed to stop banks from failing. This insurance system really is designed to protect small depositors predominately, but it is not designed to ensure that there is no failure within the banking system. Fortunately for Barbados, we have had a financial system that has withstood the test of time, and in the most dire circumstances, there has never been any concern about the stability of the financial system in Barbados or the health of the commercial banking sector.

Sir, to ensure that the protection of the depositors is guaranteed, the system must operate with a very strong legal environment, the economic environment must be stable and the supervisory framework must also be credible. That is the extent to which you can ensure the protection of the depositors.

10.30 a.m.

Sequence 3

Tuesday, October 24, 2006

House 113, Sequence 4, 10.30 a.m.

Mr. C.A. MASCOLL: The legal system which we have and which has been the envy of several, is sufficiently sound to ensure that when we introduce this system of deposit insurance, it is done within an environment where there is a degree of safety and comfort for the depositors.

At this moment, with the economic environment and with the stability of the financial system, and the improvement in the economic indicators, certainly this is the right time to introduce a deposit insurance system, when there is no threat to the financial system, and there is a degree of confidence in the system at this time.

I want to draw on the whole question of the principles that would inform the structure of this system. I alluded earlier to the principle of moral hazard. Sir, moral hazard is most critical in discussing the impact of a deposit insurance system on the financial market. Sir, moral hazard refers to the additional risks to the banking system, resulting from the introduction of a deposit insurance, on account of the different participants adopting decisions and behaviour, that may be personally advantageous, but may be perverse to the financial system. In short, people are going to look out for their self-interest, and act in a way that may be counter to the financial system and injurious to the system itself. The whole question of moral hazard is a

fundamental principle that has to be addressed in designing a deposit insurance system.

Sir, to cope with the risk that can be incurred within a system, it is important to ensure that there is relatively low coverage, which is adequate enough to protect the major of small depositors. Therefore, in terms of dealing with the whole question of risks, and the whole question of moral hazard, you have to ensure that the coverage is sufficiently low to guarantee small depositors, a degree of protection. In this regard, the $25 000 limit offers a coverage, and I repeat, of 95 per cent to all depositors in Barbados and that is a highly desirable feature of the Deposit Insurance Scheme to be introduced.

The other thing that we need to do is to ensure that anytime there is distress in the institutions in the financial system, we have a prompt system in place in order to respond, react and intervene on behalf of the depositors. Therefore, Mr. Speaker, it is critical that each institution covered by this legislation is, in fact, in a position to cope with that limit of $25 000, on behalf of each and every depositor in the banking system.

I wish to make an extremely important point at this stage. Even if you have two accounts in a commercial bank or any other banking deposit system under this legislation, it is important to know that your limit will still be $25 000, so even if the aggregate of the two accounts exceeds $25 000, the depositor is insured to a limit of $25 000. This has to be understood because it is not possible to cover the entire system of depositors, but it is possible to cover the majority. In this case, we are covering as much as 95 per cent of all the depositors in the system.

In addition, on the question of being able to intervene, you need to ensure that there is good governance, and sound risk management in the individual banks, through discipline of the market, and strong prudential regulations and supervision. There is no one who can complain about the level of prudential regulation that the Central Bank has been able to execute, since its introduction in 1972.

Therefore, Barbados has a reputation for having a very strong and safe financial market. In fact, it is believed, in some quarters, that Barbados goes the extra mile to protect its financial institutions, to the extent that it may exclude some possible investors, who are seeking to locate here. What is said is that there is an assumption of guilty and then you have to prove that you are innocent, when it may be possible to assume innocence and then ask potential investors to prove that they are guilty of a misdemeanor.

Mr. Speaker, in actual fact, the question therefore of ensuring that your financial environment is adequately supervised and well-regulated, is paramount to the introduction of a deposit insurance scheme. The principle therefore, moral hazard, as I said, is undergirding the whole question of introducing a deposit insurance system in the financial market, and it is a critical principle upon which to rest and shape your design of this system.

The other principle upon which a deposit insurance scheme has to rest, is the principle of adverse selection. What you are saying here really is that the investors, may feel that they are protecting smaller banks in a financial system but, in actual fact, the integrity of the system is as critical to the big bank, as it is to the small bank. Therefore, you have to ensure that each and every bank is covered under this scheme, and you cannot serve to establish a definition that excludes small institutions from being able to register or be part of such a scheme.

The whole principle of adverse selection, ‘kicks in’ because the integrity of the entire system is more critical than the soundness of one individual large bank or one individual large institution. Stronger institutions as I said, may feel that they have to carry the weaker institutions in a financial system.

The system therefore depends on the participation of all qualifying member institutions. In short, its membership has to be compulsory for all member institutions. You cannot exclude any member on the basis of size. You cannot exclude any member on the basis of past behaviour. Every deposit-taking institution has to be included, in such a scheme. Of course, you need to fully define, what a deposit institution is, and that is done in this particular Bill that we have before us today.

Mr. Speaker, I wish to suggest that in making any attempt to introduce a deposit insurance system, you need clearly to define the principles upon which you do so. I have introduced in the first ten minutes of my speech, the environment and infrastructure for the establishment of a deposit insurance system in Barbados.

Mr. Speaker, I want to go to the details of the system, which we are seeking to introduce in this Bill today. I said before that we are seeking to establish a Deposit Insurance Fund, but that Fund has to be managed effectively and carefully, over the next several years. This Deposit Insurance Bill therefore seeks to put that system in place.

Sir, within the Caribbean, there is such a system in the Bahamas, there is such a system in Jamaica and there is such a system in Trinidad and Tobago. Therefore, Barbados is now catching up with some other players within the Caribbean region. As at the year 2000, some 85 countries around the world, would have established Deposit Insurance Schemes to protect small depositors.

As you know, we have a very good history of strong financial systems development in Barbados. You would also know that we have a very strong history of adequate macroeconomic management. The effective regulatory environment in Barbados is more than adequately managed by all standards, which we seek.

House 113, Sequence 4, 10:40:14

Tuesday, October 24, 2006

Hon. C. A. MASCOLL: In 2002, the Government mandated the Central Bank to put this system in place in order to provide such protection. Sir, the process might have taken four years, but it is indeed extremely timely at this time when we are seeking to develop a greater capital market in Barbados to attract greater levels of finance not only from within the Caribbean but beyond the Caribbean.

Mr. Speaker, to this day, Barbados has had a very well-developed financial services sector, which has proven over the years to be fairly robust, and it is now contributing more to our corporate tax take than several of the large industries and companies in Barbados. In fact, the financial services sector in Barbados is indeed making an outstanding contribution to the corporate tax take.

Mr. Speaker, when you sum the domestic institutions, Barbados has in excess of $10 billion in assets and a deposit base of almost $7 billion as at the first quarter of this year. Therefore, one can see the extent to which there is need for adequate provision in the event that something untoward happens in the financial system in Barbados.

Mr. Speaker, what are the best practices that we have seen? There was consultation with the industry on this whole question of establishing a deposit insurance fund. It was determined that one of the characteristics of the Fund be that it should be a public-run fund since a private system may set the premiums too low and put the onus on Government to deal with the whole question of assets in times of stress.

Mr. Speaker, we know that the private sector deals with demand and supply, and if they could reduce the price of anything they would do so, but it may be to the detriment of the very Fund itself. Therefore, the industry felt that it would be better to put a public-run system in place rather than a private-run system in order to ensure that there is better coverage of the stress that may come to bear on the financial system.

The other feature is that of mandatory membership and that all deposit-taking institutions in Barbados, licensed under the Financial Institutions Act, be part of the deposit insurance scheme.

Mr. Speaker, that again is extremely important because you cannot have a financial system that has a weak link. In fact, your weakest link has to be strong. Therefore, you cannot take the chance of letting smaller deposit-taking institutions stay out of the deposit insurance scheme, if not you would compromise its integrity.

Mr. Speaker, the other thing is the coverage. It was determined on the basis of what is standard throughout the Caribbean and the world that a deposit insurance limit seeks to cover small depositors and that a barometer of 1.5 times your per capita income be used to determine the upper limit of the insurance. In this instance, as I said before, $25 000 would adequately cover all small depositors in Barbados and falls within the ballpark of 1.5 times the per capita income of the country.

Mr. Speaker, the other thing that is important to ensure its integrity, is that it be a funded system. By this we mean that the Central Bank of Barbados would participate in funding the system up front so that whatever we decide to impose on our deposit-taking institutions would be matched by the Central Bank of Barbados.

Mr. Speaker, another thing that was determined is that the premium flat rate would be 0.05 per cent of deposits. Mr. Speaker, I will explain what is a deposit for the purposes of this legislation.

Mr. Speaker, it is also critical to ensure that the legal structure is put in place to effectively manage the system. Therefore, the question of the governance structure has been dealt with in the legislation itself. It says here at the Schedule that the Governor of the Central Bank, the Director of Bank Supervision of the Central Bank and the Chief Executive Officer of the Corporation, which is to be established, would be ex-officio members of the Board of Directors, that a representative of the Ministry of Finance and three other persons, appointed by the Minister, who must show some qualification and experience in actuarial science, accounting, banking, commerce, finance, insurance or law would sit on the Board of Directors.

Mr. Speaker, all you are really saying is that these persons ought to be able to make a contribution on this Board of Directors for the Barbados Deposit Insurance Corporation, (BDIC). The Minister has the responsibility for appointing the Chairman of the Board for a period of not less than three years and the Deputy Chairman. A person is not eligible, or if appointed, to remain as a Director if, inter alia, he is a Director, an Officer or an Auditor of a member institution during the three-year period preceding his proposed appointment, or if he is a shareholder, holding more than five per cent of the voting shares of a member institution. Mr. Speaker, those are the only conditions under which a person cannot be a member of the Board of Directors of the BDIC. The role of the

Minister is in appointing the Chairman and the three directors.

There is a critical role for the Central Bank of Barbados to play in the establishment of the BDIC. It is a separate legal entity, as we know, from the Central Bank of Barbados. The Central Bank of Barbados has responsibility for regulating the financial system in Barbados under the Financial Institutions Act. The Central Bank of Barbados would play a very major role in interacting with the BDIC to ensure the continued effective supervision and coordination of the financial system in Barbados.

The bank's primary role and function in the BDIC would be to promote the introduction of the system. As we now know, the Central Bank holds in reserves at the Central Bank some proportion of the deposits of commercial banks. Those are held, Mr. Speaker, in order to effect monetary policy. A Central Bank is in fact responsible for the monetary policy of the country. Therefore, when the Central Bank of Barbados decides to hold X amount of securities from the commercial bank, it can regulate the amount of money in the banking system and determine whether or not Government should increase or reduce the amount of money supplied in circulation. That is a critical role for the Central Bank of Barbados. Mr. Speaker, the other thing that the Central Bank has to do is to subscribe capital for the BDIC and must also match the initial contribution of the members of the insurance scheme. It is very important therefore that there is some synergy between these two institutions, which would be given the responsibility for regulating and supervising the entire financial system of Barbados.

Mr. Speaker, this was long in coming because it was talked about from some time in the 1980s. The fact that we now have a deposit insurance scheme being considered is critical in determining the future viability of our financial system and our potential to develop truly into a capital market that would be the envy of the rest of the Caribbean. Therefore, this piece of legislation is absolutely critical at this time.

House 113 Sequence 5

10.50 a.m.

Tuesday, October 24, 2006

Hon. C. A. MASCOLL: Mr. Speaker, in terms of the functions of the Barbados Deposit Insurance Corporation, they will have to levy the initial contribution and the annual premiums on the deposit-taking institutions in the scheme. That premium is 0.05 per cent and, therefore, you could expect that it would accumulate millions of dollars in the next 20 or 25 years.

Mr. Speaker, what is important here is that the system gets off to a very good start, because you do not want the Insurance Scheme to be called on, neither in the initial stage nor at any stage of its life. Therefore, the more you accumulate surpluses and premiums in this scheme, the more satisfied you would be, that you can actually deliver on covering the insurance that has been given to the small depositors.

Sir, in essence, you are raising funds, to ensure that small depositors are, in fact, covered but you do not ever want to have to use these funds because it is really a question of ensuring that in the event there is distress in the financial system, that you would have protection to offer the 95 per cent of depositors in the financial system of Barbados. It is almost like any kind of insurance, for example, one takes out life insurance hoping that someone would benefit after you die, but you do not want to die, to ensure that they would benefit. If, in fact, you could stop yourself from dying, then you would have life insurance in perpetuity. Therefore, it is one of those instances in which you do not want to have to face the circumstances surrounding why you have, in fact, taken out insurance.

Mr. Speaker, the other thing is that the BDIC will act as a liquidator. Sir, I will speak to this matter in more detail later but in the event that you have to deal with any folding up of a deposit-taking institution, then there are particular procedures in which one has to engage, in order to ensure the smooth functioning of the system. Furthermore, they will have to ensure, that in the event, there are any difficulties within the financial system, that there is the smooth reorganisation and the takeover of member institutions. Therefore, if some small deposit-taking institution runs into difficulty at some point in the future, then the smooth takeover or reorganisation of the institution becomes the responsibility of the BDIC.

Mr. Speaker, I will look at the powers of the corporation. This corporation will be able to borrow from the Central Bank of Barbados. It can give guarantees; it can issue bonds or other securities, and that is the extent to which we need to establish the corporation, in order to be to manage the fund that will become available as a result of the imposition of the premium. Therefore, you would have to ensure that the staff is paid and that the variable costs of the corporation are met. Therefore, it is not simply a question of putting the fund down, but a question of prudently managing the fund, to take care of eventual or future liabilities of the fund. To that extent, the corporation, therefore, is absolutely critical in the process.

Mr. Speaker, the corporation can also purchase or enter agreements to purchase assets and assume the liabilities of institutions, whose management and control has been seized. Therefore, if there is an institution that runs into difficulty, then this corporation can actually take

over the management of the assets and accept the liabilities that the particular corporation would have had, and find the least-cost solution to winding up the institution and getting that institution out of the business and ensuring that the financial system does not suffer any loss of integrity.

Mr. Speaker, so that, in fact, the long-term viability of the financial system will be determined by the capacity of the corporation to manage any distress, in any institution, at any time, in our history or lifetime. Therefore, this corporation has a very critical role to play, along with the Central Bank of Barbados, in ensuring that the financial system of Barbados remains intact and sound.

Mr. Speaker, the corporation could also incorporate a company to facilitate the acquisition or management or disposal of assets. Therefore, again there is a serious responsibility for the BDIC. The BDIC now can actually incorporate a company, to ensure that there is a smooth acquisition or dissolution of any company that runs into difficulty. Therefore, to that extent, we can see this piece of legislation is extremely critical to the financial management or financial market of Barbados.

Mr. Speaker, in this regard, therefore, the Act seeks to established a Deposit Insurance Corporation, which will now be responsible for the management of the fund. Let me, therefore, explain the extent to which this could happen. The proceeds from the fund, including any interest earned on investment of its resources, may be used to discharge the following expenses. Therefore, the proceeds from the fund, any expenses that it incurs, can, in fact, be used by the corporation:

(l) to discharge such obligations as

(a) the claims arise as a result of failure of closure of a member institution.

Therefore, the importance of the corporation is, indeed, cited in the requirement of the fund.

(2) The equivalent of such claims would have been payable but are used in the reorganisation or restructuring including facilitating the sale of the failed member institution.

Mr. Speaker, in fact, what you are saying is that this corporation can now go into an institution, acquire it and then begin to manage the process of getting it out of the financial system to guarantee overall integrity of the system. This corporation has tremendous responsibility, along with the Central Bank of Barbados, in guaranteeing the integrity of the financial system of Barbados.

Mr. Speaker, what about the administrative expenses of the corporation? What about the wages and salaries, any compensation that would have to be given to the Members of the Board? These have to be considered and, therefore, become part of the responsibility of the corporation in managing the fund, to ensure that the expenses of the staff are met, the expenses of maintenance of whichever building, whatever rents that have to be paid, whether or not the corporation acquires a building of its own, whether or not the corporation may have to expand because of increasing responsibility in the future, whether or not there may be an amendment to this legislation some time ahead to include credit unions, which are not considered in the actual Act, because they are not considered as part of the Financial Institutions Act (FIA). Therefore, up ahead, when the credit unions become more sophisticated, it might be possible to seek to amend this legislation in order to give the Central Bank of Barbados the responsibility to supervise, as well as the BDIC the responsibility to manage that process as well.

Mr. Speaker, we are talking about legislation that is in its infancy but has the potential to be expanded and, therefore, the role of BDIC can be expanded in the future and the expenses and responsibilities would be increased over time, but this is now being considered within the legislation before us today.

Mr. Speaker, I want to deal with the question of the funding because it is not recognised as yet, that there is a correlation between what we are doing here today, in terms of introducing a deposit insurance scheme for the financial system, and the tax on bank assets in Barbados. In fact, earlier this year the Government made decision to reduce the tax on bank assets. This was a tax that was not validated. It was missed over the years by all Governments. The tax, at the time, was one-fifth of one per cent of the assets of a commercial bank. Earlier this year, the Government decided that it would be phased out because the taxes collected under the Bank Asset legislation, will now be removed and the Deposit Insurance Scheme will replace the bank assets.

11.00 a.m.

Tuesday, October 24, 2006

(EDITED)

Mr. C.A. MASCOLL: Sir, not that it would be replaced, but you do not want to burden the commercial banking system with more taxes so Government has taken the decision to remove eventually the tax on the bank assets so as to reduce the tax liability on commercial banks but allow for a deposit insurance scheme to come into place. Sir, this has to be explained.

Mr. Speaker, a tax on bank assets will go into the Consolidated Fund and will be spent on anything which the

Government desires to spend it on but, really and truly, I must say this from my professional standpoint, the imposition of a tax on bank assets cannot really be justified in today's world. We already have a corporate tax on these institutions but in an attempt to raise money, a tax was imposed on the assets of the banks, which would be unfair in today's world because you cannot really look to any principle, except one of raising money to justify the imposition of a tax on the bank assets of a commercial bank.

Therefore, if the Government has decided that it will phase out the tax on bank assets but now seek to insure the deposits of small depositors in Barbados, it must be lauded. It cannot be criticised because this premium will not redound to the benefit of Government at all but would go into a corporation that would be managed in the interest of small depositors. Therefore, you have moved money from the Consolidated Fund, under the direct purview of the Government, into the hands of a corporation to manage on behalf of small depositors. Sir, this is an exceedingly loyal position to reach on part of the Government.

Mr. Speaker, the bank took the decision that, this year, it would reduce the tax on bank assets by 25 per cent. Mr. Speaker, how do you do that? You do that, by imposing three-quarters of one-fifth of 1 per cent. Sir, as you know, three-quarters is 75 per cent, which is a reduction of 25 per cent, so this year in 2006, the tax on bank assets would be three-quarters of one-fifth which would be three-twentieth of 1 per cent of the bank assets.

Mr. Speaker, next year, it would be reduced by a further 25 per cent to one-half. It would now be one-half of the three-twentieth, which would be three over forty of 1 per cent. It will be a gradual phasing out of the tax on the bank assets and will move towards a Deposit Insurance Scheme on behalf of small depositors in Barbados.

Mr. Speaker, it is expected that the premium would be assessed at the beginning of the year and that the BDIC would inform member institutions before January 31st, of the premium to charged. Sir, it includes a little more detail. The insured deposits are not all deposits in the commercial banking system. The insured deposits would not include foreign currency deposit, which would be excluded from the deposit base of the premium and, therefore, the Central Bank of Barbados will determine what deposits will, in fact, carry the premium of 0.05 per cent, because Central Bank of Barbados monitors on a monthly and weekly basis the deposits of the commercial banks. Sir, that has been determined by the officials who have been involved in putting this legislation together.

Mr. Speaker, therefore, the question is, to what extent can we take those funds that would go into the Insurance Deposit Fund and grow them for insurance purposes, that is, to increase the level of investment at the BDIC. I know that the Honourable Member for St. Michael West Central has a keen interest in this because it is a question of how do you take money and make more money from it. You are really making more money in anticipation that you may incur a liability some time in the future and, therefore, you cannot allow money to sit idly by and not try to increase the wealth of the institution in an attempt to deal with any possible liability up ahead.

Mr. Speaker, this is going to require a very good staff because the staff has to make decisions about where to put the funds, which securities to invest in and whether or not, eventually, they would be allowed to invest beyond the shores of Barbados; whether or not, eventually, the deposits would be invested in Trinidad, Jamaica or the OECS as a means of diversifying the investment portfolio of the BDIC. Sir, in the fullness of time, that would be determined by the process or the speed at which we come to the Caribbean Single Market and Economy. I look forward to the day when institutions around the region, whether private or public, would see other countries as alternative havens for investment and that there would be allowed to do so freely without having to worry about any loss of capital of any outward movement of resources from a particular country. Mr. Speaker, that would be the day when we can say that we truly have a Caribbean Single Market and Economy in place.

Mr. Speaker, there is the whole question of how do you deal with compliance. Sir, if this is a mandatory system, which requires each and every institution to be part of it, then the whole question of compliance is extremely critical because, if an institution makes a decision not to comply, it compromises the financial system. Therefore, the intention is not to compromise the financial system and, since it is mandatory, it is critical, therefore, that compliance be an important part of the process of the establishing of the BDIC.

Mr. Speaker, how do we go about compliance? Sir, failure to comply or to pay any amount on your due date will result in some penalty being imposed because, you have to serious about this and it cannot be like the National Insurance Scheme. Sir, National Insurance might only affect one individual or one company but if you do not have compliance at the level that is required in this system, then it could affect the entire financial system in Barbados and it cannot be permitted. Therefore, compliance is a must and what is more important is that you are dealing with a corporate body and, therefore, the ability to ensure compliance is easier as opposed to an individual who has to go through a company by way of payment of National Insurance and you are not guaranteed that the owner of the company would pass that National Insurance on in the form of a contribution. Sir, in this instance, it is a corporate body, an entity that can be dealt with in the process of law.

Mr. Speaker, any sums which are outstanding after six months may result in cancellation or suspension of the membership and they must be paid within six months otherwise, you can be suspended from this Scheme. Sir, no one wants to be suspended from this Scheme because, if a depositor could go to an alternative institution and deposits funds knowing that there are insured, then they would not go to an institution that is not a member of this Scheme.

Asides.

Mr. C.A. MASCOLL: Yes, we will deal with the credit unions at some time but the question is, how do you bring them into the system. The other thing is the cancellation of an institution's membership. You do not want as a small or large commercial bank not to be a member of this Scheme because, Mr. Speaker, it would mean that people may take their deposit from your institution put them into another institution and compromise your business so, therefore, you want to be part of this process.

Mr. Speaker, this is so critical that you have to insure that fees and penalties are paid. It is possible in this Act, that the Corporation may charge fees necessary to administer the Act but that would be determined by the Corporation when it is fully established. Sir, persons found guilty of an offence would, in fact, have to provide information that they did not wilfully try to destroy the system and will be subject to a fine of $20 000, but that is small for an institution which has a whole set of resources and that controls a whole set of deposits on behalf of small people.

H113/11:10

Sequence 7

Tuesday, October 24, 2006

Mr. C.A. MASCOLL: Sir, persons guilty of an offence of falsifying deposit documents, would also be fined $25 000 or a year in prison. In actual fact, the penalties are stiff, because the potential for damage to the economy is extremely and extraordinarily high. Therefore, the penalties have to be stiff in this instance. Mr. Speaker, persons who do not disclose confidential information or use that information to their benefit, will also incur fees or penalties to the tune of $25 000 or a year in prison.

As I said, there are two fundamental principles on undergirding the establishment of such a scheme, one, the question of moral hazard and the other adverse selection. Moral hazard means that persons may see it fit to protect their own space while compromising the integrity of the entire system. Therefore, a Government cannot allow for an individual, who is acting in self-interest alone, to compromise the integrity of a system that seeks to protect thousands of other people. To that extent, you have to ensure that the principle of moral hazzard is fundamental to the establishment of such a scheme.

Mr. Speaker, therefore, you would see that in spite of the fact, that we have a piece of legislation that appears to be esoteric in nature, that appears only to be about law, in fact, this whole Bill rests on the fundamental principles, and that is the basis of life. If we do not have principles in life, you could be anything to anybody at any time, but if you have principles upon which you form an institution, or upon which you base your life, you know how to make decisions. That is the importance of establishing principles and philosophies, because you do not become anything to anybody at any time. You make decisions based on fundamental principles of life you have established. Therefore, it is equally critical in putting together a scheme or organisation of this type, that you allow that scheme to rest on fundamental principles, which are, as I said in this instance, moral hazard and adverse selection.

Sir, the whole question of the operation procedure of the corporation is also fully outlined and determined. I would not go into all of this because this talks about accounts, bookkeeping and other things which are really part of the legislation itself. Sir, how do you liquidate and reorganise are also fully explained within the Act. This legislation would have been borrowed in some instances from other jurisdictions that have put such things in place before.

I want to speak to the matter of liquidation. What are the priority of claims? Who has the first call in the event that there is a liquidation of an institution? The expenses incurred, first of all, by the liquidator have first call. Sir, the wages and salaries of officers and employees, that accrued during the three months preceding the liquidation, is also priority of claims. The question taxes and of monies owned to the Government become a priority in terms of claim. The outstanding premiums owed to the Fund at the BDIC is also critical. In terms of settlement when there is a liquidation, these are the priorities that would be followed in determining how the issue is settled and how the liquidation and the reorginastion of the failed institution would be determined in law. Sir, fees and assessment owing to the Central Bank of Barbados, would also be part of the priority of the claim of the failed institution.

Mr. Speaker, I think that I have thorough in putting forward the Bill, what we intend to do in terms of establishing the Deposit Insurance system. I sought to explain, at the beginning, what were the principles used in determining how to structure and design this scheme. Sir, we also dealt more expansively with the actual design of the scheme in Barbados, because we have borrowed from other jurisdictions in the region, Trinidad, Bahamas and

Jamaica, who have implemented such schemes before. We have identified that the real fundamentals issue here is how do we protect small depositors across the entire financial system, who make deposits to institutions, and we have clearly defined, under the Financial Institution Act, institutions that qualify to be part of this BDIC, and be part of the insurance scheme which we are seeking to put in place.

Sir, to that extent, there have been some changes to the Financial Institution Act as well, in order to facilitate the establishment of the BDIC to ensure to that the system is credible, and to avoid any distortions with respect to the whole question of moral hazard, which I explained earlier, that is, you do not want anyone institution or individual to act in his or her interest, but to the disadvantage of the entire system. Therefore, to that extent, it became necessary to make some adjustments to the Financial Institutions Act (FIA), in order to ensure that we can effectively put this scheme in place.

Sir, these specific changes to the Financial Institutios Act include, the cancellation of membership in the Barbados Deposit Insurance Corporation (BDIC), as one ground for the revocation of a licence. We also include at Section 44, the need to facilitate the sharing of information, because in a financial system it is critical that persons who are seeking to deposit funds or have any business with those institutions, have information upon which they can make decisions.

In fact, to that extent, if we have to be critical of our system in Barbados, unlike a system in the more developed countries in the world, where a decision by a George Bush or a manager at a large corporation could influence the financial market, e have not yet reached that level of sophistication in Barbados and the region, where it information can in fact influence the overall integrity of the financial system. Therefore, to the extent that we can make available to depositors and other players in the system, information that can determine their decisions, we have to do so. Sir, it is therefore absolutely necessary that we make that kind of adjustment and amendment to the Financial Institutions Act.

Mr. Speaker, in order to hasten the intervention process, we have also made an adjustment to Section 50 in the legislation, in order to allow for greater expediency in terms of the BDIC being able to intervene to make any prompt decisions, to offset any potential failure or failures on the part of a member institution. Sir, as I said, the lawyers in our midst would make even greater contact with the provisions that have been made, in terms of the legislation, by the Financial Institutions Act.

Mr. Speaker, there is another amendment to the Central Bank Act, which permits for the staff to be seconded and to move across institutions, without any loss of benefits. That is a simple amendment that has been made to the Central Bank Act to allow for there to be cross-pollination of these institutions, since there are, in fact, doing a similar type job, but you do not want the very institution that is responsible for the supervision and regulation of the Act, to also be the one who is directly controlling the BDIC. In essence, you do not want the Barbados Deposit Insurance Corporation to be a department of the Central Bank, because you want to give it greater autonomy.

11.20 a.m.

Sequence 8

Tuesday, October 24, 2006

House 113, Sequence 9, 11.20 a.m.

Mr. C.A. MASCOLL: Sir, although you respect and recognise the need for the Central Bank Governor, the bank management and supervision to be part of the directorship, you did not want it to be in the same institution, since there appears to be the view of some thinkers, a relationship that you want to separate because one is regulating and supervising, and the other is looking after the whole problem of inefficient and ineffective regulation.

Therefore, to that extent, you may have the Central Bank judging its own self and not making decisions, if the BDIC were part of the Central Bank itself, as oppose to being a separate legal entity. The consequences of inadequate supervision and regulation, may be that there is failure of an institution and, to that extent therefore, the Central Bank would be in control of both the delivery of the failure and the need to prevent failure. Therefore, there had to a separation of the institutions, to ensure greater integrity of the system that we have before us.

Mr. Speaker, to that extent, I think that we have presented the findings of the work that has been engaged in, over the last four years. We recognise that everything has to be rest on principles, whether it is an individual or a corporation. We sought to explain the infrastructure that will be in place for the BDIC. We then went towards explaining, more comprehensively, the actual contents of the legislation, and the implications of the legislation for the FIA and the Central Bank itself.

Sir, we are hoping now that with the eventual removal of the tax on bank assets, there would be no double burden on the part of the commercial banks and other deposit-taking institutions, in having to meet a tax on bank assets, as well as a premium on the deposits to guarantee insurance for small depositors.

I therefore, Mr. Speaker, feel compelled to say that any system, which can cover 95 per cent of the small depositors in the banking system, must be a system to be lauded; any system, which seeks to protect the interest of small people in this kind of way, must be lauded and; any system that Government would introduce, where it would deny itself access to funds out of the Consolidated Fund, and redirected those funds instead toward a system of insurance for small depositors, must be system to be lauded.

Therefore, it is now for me to say that I agree totally with this Bill, in fact, the set of Bills before us, and invite further deliberation and discussion in the Second Reading of the Deposit Insurance Bill, along with the Financial Institution (Amendment) Bill, and the Central Bank (Amendment) Bill.

I thank you, Mr. Speaker.

Mr. SPEAKER: The Honourable Member for St. Philip West.

Dr. D.C. ESTWICK: Mr. Speaker, I want to take this opportunity to participate in this debate, because I believe that this is a very important debate, at this particular juncture in the development of Barbados.

I believe, Sir, that these pieces of legislation and the various amendments are very long overdue, given that we are talking about a country that wants to move into a first world structure. Sir, given that we are a country which is operating within the realm of regulations within WTO, and other international fiduciary groups, it is therefore important that we move our frameworks that manage our fiduciary institutions, in such a way that they are largely on par with those in the international arena.

Sir, in reviewing the various pieces of legislation, there are a lot of things I agree with, and the Members on this side agree with. There are one or two questions that I would want to pose to the Honourable Member for St. Michael North West. It is from that perspective, Mr. Speaker, that I will enter this debate.

I agree strongly, Sir, that it is about time we have an institution and a structure that is backed by the strength of legislation, to protect and defend the deposits in the financial institutions. For too long, Sir, we have depended on the notion that these institutions have a long-standing track record. We have relied, Sir, on international credit rating institutions to provide us with this security, that our deposits are indeed safe, within these various institutions. Therefore, any piece of legislation that brings to bear an organised framework and a set of regulatory frameworks that allow our depositors to feel more secure, in addition to what was already indicated, I will have to fully support. I looked very closely, Sir, at the areas under consideration and, as I said earlier, many of these areas, we fully agree with.

I want to go quickly into my concerns. The Honourable Member for St. Michael North West spoke to the gradual reduction in taxes on bank assets, ultimately to these taxes being phased out. I want to ask the question, if it is that we are dealing with a mandatory system, and that the financial institutions in Barbados would be required by law to be part of this new order, and if it is that the premiums paid to the Deposit Insurance Fund, which is tax deductible based on the legislation, page 31, section 47, the fact that we are phasing out the taxes on bank assets, and we are also moving to the position, where we are now having premiums being tax deductible, if in a lot of ways, we are not, in fact, protecting the interest of the banking systems. Thus, in a way when the Honourable Member spoke to the moral hazard principles, that the concept of discrimination could be introduced, when large players might very well believe that, if you are going to ensure and allow for an insurance system to be in place for only $25 000 as the limit, if this in itself might not be the wrong road to be taking at this time.

Mr. SPEAKER: Just a minute, please.

Dr. D.C. ESTWICK: Sure.

Mr. SPEAKER: Honourable Member, please, could I have some order down there, please.

Asides.

Dr. D.C. ESTWICK: I believe that the deposit ceiling is too low. I understand the logic applied by the Honourable Member for St. Michael North West, as he utilised the 95 per cent coverage, as a 1.5 per cent ratio of the per capita income. I still feel, Sir, that in a modern Barbados, where we are expecting growth and development, we have to plan for the future.

House 113, Sequence 9, 11:30:14

Tuesday, October 24, 2006

Dr. D. C. ESTWICK: Mr. Speaker, to set the limit at this time at $25 000 as the maximum insurable limit is too low for a growing and developing country, especially one that expects to become part of a regional stock exchange mechanism and one that is looking to liberalise the capital accounts in Barbados to allow significant movement of capital flux across the Caribbean. Sir, I believe that the limit is set too low and that very soon we are going to be back in this Chamber looking to establish amendments based upon those fundamental principles.

Sir, I see on page 12, Section 12, that the Corporation responsible for managing this Fund is allowed to establish a foreign account. I also heard the Honourable Member for St. Michael North West, if I heard him correctly, suggesting that those deposits in the foreign account would not be covered by insurance. Sir, I have a problem with that. If it is that the entire premiums from institutions that are transferred to this Deposit Insurance Fund are tax deductible, I want to understand the logic of allowing a financial institution that already has a second-tier foreign exchange programme to send foreign reserves out of Barbados in place since 2001 and established when we were in a recessionary period, and why would this Administration want to put another mechanism in place that would allow the deposits of Barbadians to be converted into foreign currency and be deposited outside of Barbados and those deposits are not covered by the insurance.

Mr. Speaker, it is only a question that I want the Honourable Member for St. Michael North West to answer, maybe I am misreading the Bill. Sir, I only want a few explanations on that matter.

Sir, I also believe that it is a fundamental neglect not to have considered credit unions in this piece of legislation. The Honourable Member for St. Michael North West has said that this legislation is supposed to protect the small depositors in Barbados, but yet this legislation has left out the majority of them. It is the little maid, the orderlies and those who sweep the roads that have their money in the credit unions. I cannot therefore accept that precept as a logical one to explain why it is that credit unions are left out of this piece of legislation.

Asides.

Dr. D. C. ESTWICK: It might be so, but I feel we are an independent jurisdiction and as a result of that we have a responsibility to protect all of our depositors not just the ones who deposit in the banks like First Caribbean and the Royal Bank of Canada, but all those who deposit wherever deposits are taken in Barbados. That is what this legislation should be doing. Mr. Speaker, I will leave that alone and I will move on to something else.

Mr. Speaker, I feel relieved when I look at page 10 and see this so-called attempt at asset disclosure for so-called public or quasi-public officials. Will the directors have to now disclose interest? Will they have to disclose their assets, acquisitions, if there is an interest in another company or another corporation or if there is any short hand contractual relationships.

Mr. Speaker, I think that I should read section 7 (3), which says that a director who has any interest or concern in a company with which the Corporation proposes to make a contract or otherwise transact business, shall disclose to the Corporation the particulars of that interest. Sir, this is a wonderful and interesting piece of introduction.

It goes on at (4) to say that the details of any disclosure made under this section shall be recorded in the Minutes at which a disclosure is made. Mr. Speaker, this is all fine and good. I do not have a real problem with it. I am happy to see it being introduced, somewhat through the back door.

Mr. Speaker, if we are going to start creating this type of introduction and we are going to start here, I hope that it moves to other institutions as well. I hope it is not left only in relation to the Barbados Deposit Insurance Corporation (BDIC). I want it to go to BIDC, to the NHC and to all of the Cs in Barbados. I want it to therefore go to those quasi-public companies that utilise taxpayers money with no fiduciary accountability to Parliament. Sir, that is why I do not have a problem with it, I think that it is wonderful that it is coming in at this particular point of time because it is supposed to protect the small depositors in Barbados.

Mr. Speaker, I also want to comment on the structure of the Board of Directors which in a large measure I agree with. I also want to commend the drafters of this Bill for section 10 (5) on page 35. What I want to find out is why would you want to say to Barbados that if you were ever bankrupt you should not be a director of such an institution. That does not make any sense to me in a modern Barbados. If there is a new bankruptcy legislation in Barbados that allows for you to go into bankruptcy and so come out of bankruptcy unstained and with your civil rights in place, I want to understand how could this be written into this Bill and brought to this Honourable Chamber. I hope that the Honourable Member for St. Michael North West would explain that one to me and to the people of Barbados.

Mr. Speaker, I also heard from the Honourable Member for St. Michael North West about having a sound legal system, to which I agree. We have an excellent set of fiduciary laws. However, our regulatory framework has been tested over time.

Mr. Speaker, as the Honourable Member for St. Michael North West was saying the words through his teeth as he spoke about the matter of sound economic indicators, I saw the pain in his face. How could we have sound economic indicators with inflation at seven per cent, an external gap or external current account deficit at 12.5 per cent and a national debt of $6 billion? Sir, I also saw a fiscal balance of $525 million and growing, yet I could hear the Honourable Member speaking about sound economic indicators.

Certain remarks made by the Honourable Member for St. Philip West were ordered expunged from the records by Mr. Speaker.

House 113 Sequence 10

11.40 a.m.

Tuesday, October 24, 2006

Dr. D. C. ESTWICK: Mr. Speaker, his statements make no connection. They are far removed from the truth.

MR. SPEAKER: That is better, Honourable Member.

Dr. D. C. ESTWICK: Mr. Chairman, that was one I thought to be quite interesting. I could appreciate the other elements as being necessary to help to support the broad framework for the success of such a system, and I do commend the developers of the legislation for, in fact, having the foresight to appreciate how critical it is to be able to protect the savings of small workers in Barbados.

Mr. Speaker, the reason why this becomes more critical, at this time, is the fact that the last consultation with the International Monetary Fund, its Article Four Consultation... Sir, I want to be accurate, that is why I am going to the document - there are some truths that are truths, whether you want to accept them or not. The reality of the situation is this, if any Honourable Member on that side wants to dispute whether or not the national savings rate in Barbados has declined, well, let them do so. If any Honourable Member on that side wants to debate whether or not private savings in Barbados has declined, let them do so.

Mr. Speaker, the reason I want to go directly to the numbers, is to demonstrate the importance that any little savings we have in the banks, we have to protect it because in Barbados, we are now being put under so much pressure, that the capacity to save... any little bit of security on that front, I will support.

Mr. Speaker, I will rely on my memory, which is a good one. Sir, the overall national saving rate in Barbados, between 2002 and 2006, has fallen from 19.6 per cent to 7.6 per cent. That is the reason it becomes important. Anytime you, therefore, have that type of problem in savings, it is important that these types of regulatory framework be put in place, to make sure that there is security and protection for the little bit that is put there. That is the reason I will reiterate my position that credit unions should been given the same privilege as the other financial institutions, such as banks, and for that very reason.

Mr. Speaker, I believe that we had moved away from the sordid thinking that we cannot manage our own affairs. Sir, I hope I do not hear, in times to come, that credit unions would be forced to deposit their savings into banking institutions, and then the banks would then be forced to deposit those savings elsewhere. That is the direction in which I think we are heading.

Mr. Speaker, as you would say, I would not anticipate. I would not be trapped like that, but I will wait because it has to come, sooner or later, and then a debate would ensue on whether or not this piece of legislation is doing justice to the real, small depositors in Barbados.

Mr. Speaker, I have one more point to make. As I said, in general, I agree with many of the fundamental principles of the Bill. I have to do that because it is an initial entry into creating the type of regulatory frameworks that we would need in the future, but that it is also necessary that we should put our foot right from the beginning. Sir, that is all I am trying to suggest to Honourable Members on the other side, and from that perspective, this will be my last position.

Mr. Speaker, I said earlier that to have a tangible, institutionalised and managed mechanism, to protect depositors in Barbados, is admirable. I also said that the Honourable Member has suggested that a system like this should be just, but I would want some of the more legally-minded persons to define a just system, one which excludes the majority of small depositors. Sir, those individuals, who might not be so exposed to philosophical principles, may very well need to go and understand the philosophies around utilitarianism and the categorical imperatives as they apply to whether any behavioural patterns are just or not. Sir, under those particular premises, this certainly will not qualify under those particular premises. Therefore, to talk about having a just set of systems, is one I would have to disagree with, very strongly.

I also said that the ceiling of $25 000 deposit insurance, is one that is too low. I qualify that by saying it is too low in the context of regionalism and the establishment of a Regional Stock Exchange and in the context of our local Capital Account liberalisation plans. I also said that I believe this particular piece of legislation is skewed in the wrong direction. It should be moving far away from colonial premises but it is skewed in favour of banks in Barbados. It gives them a second window for taking small depositors' money and putting them into overseas accounts, to earn interest.

Sir, even though we are phasing out taxes on bank assets, we are now creating another opportunity for them, where they could remove or where, under the Income Tax Act, they could deduct all premiums deposited with the Barbados Deposit Insurance Corporation.

Mr. Speaker, the banks in Barbados were already making millions of dollars. One only has to look at the audited financial statements, but we have a situation where we are creating conditionalities now, utilising small depositors' money, for banks to earn massive interest overseas. That is what this legislation is doing to do.

Mr. Speaker, I said earlier and I will keep reiterating my position, I still want an answer from Honourable Members on that side, why in 2001, when we were in recession, we allowed the establishment of a second-tier programme, that allowed foreign exchange to be deposited overseas.

11.50 a.m.

Tuesday, October 24, 2006

(EDITED)

Dr.D.C. ESTWICK: Sir, for me, this is the crux of the matter and I am still waiting for an answer. I see another loophole to allow the banks to do the same thing.

Mr. Speaker, I think I have said what I had to say. I think that members on this side appreciate the fact that small depositors need to be protected. We agree that any mechanism that can be put in place to ensure safety in a structured and organised way, backed up by the power of law, has to be a step in the right direction, given our obligations to liberalisation, especially within our capital accounts arena and, soon to come, total financial liberalisation in Barbados, in the context of our Caribbean Single Market and Economy obligations and WTO obligations.

Sir, on this side, we, therefore, would give critical support to this type of legislation in the interest of those small depositors but we would ask for those areas pointed out, as areas of concerns, to be looked at again. Mr. Speaker, they should be visited with respect to trying to broaden those depositors who are to be protected by this legislation. Sir, not by a select few but to have it more comprehensive in terms of what this legislation is supposed to bring.

Mr. Speaker, I thank you.

Mr. SPEAKER: The Honourable Member for St. James North.

Hon. R.C. EASTMOND: Mr. Speaker, I readily recognise that the last Honourable Member who spoke pledged critical support to this measure and I want to thank him for it. Sir, the misgivings which he has expressed will be taken into account by Honourable Members on this side. In fact, even before looking at any of the misgivings he has expressed, the question must be asked of all Barbados whether, rather than a simple Financial Institutions Bill, the time is not ripe and ready for a Financial Intermediaries Bill, more all-encompassing than what the existing Financial Institutions Act is all about.

Mr. Speaker, the Honourable Member also mentioned a mindset that we inherited from colonial time on this whole matter of bankruptCY and where a bankrupt should head, having been declared bankrupt. Sir, modern trends are to look at the concept of undischarged bankrupt and the concept of discharge bankrupt and to lean in favour of liberating the discharged bankrupt. If we were to survey a wide gamut of the laws of Barbados, we are going to come across the term "bankrupt" use across the board. For example, I am sure that if we look at Election Law, we might come across a laconic statement in Election Law that a bankrupt is ineligible for the House. Sir, does that mean a discharged bankrupt or an undischarged bankrupt? Clearly, it would mean undischarged bankrupt, if we want to shut out someone who totally broke from involvement.

Mr. Speaker, the Honourable Member for St. Philip West, wise enough to recognise that our new insolvency legislation differs from the old 19th Century Bankruptcy Act, is suggesting that any blanket, laconic disqualification of a so-called bankrupt has to be relooked because a person can go bankrupt and can come out, then, when the person comes out, the person is cleansed and washed in the blood of the financial lamb and, therefore, is able to be rehabilitated.

Mr. Speaker, I take it to heart that the Honourable Member for St. Philip West was speaking more as a Barbadian that loves this country than as a political partisan. He also raised the interesting question of the status of the credit union movement. Mr. Speaker, it is well-recognised that the late J.M.G.M. Tom Adams had introduced such far-reaching fiscal tax incentives in his time, that those incentives triggered a spectacular increase in interest in the credit union movement, a spectacular involvement in the credit union movement and consequential investments by a range of Barbadians, usually workingclass Barbadians, in the credit union movement. Sir, a movement which, when you take into account its entire history, going back to the days before the credit union, had been a movement that had some scars and some aberrations in it. But, Tom Adams, Bree St. John and subsequent a Barbados Labour Party Administration has recommitted to the credit union movement to such a degree that there are hundreds of ordinary Barbadians involved in this movement.

Sir, the Honourable Member for St. Philip West is saying that if Helen, a maid; Erskine, a porter or Boysie, a watchman, has deposited in the credit union and that person is to be protected from any profligacy or spendthrift habits

of those who manage the credit union movement then, we as a Government, should not only look askance at the situation but evaluate the circumstances of these people of lowly estate, who have put their money in the credit union movement.

Mr. Speaker, historically, as you know, the credit union movement never came under control of the Central Bank of Barbados. There is an office called the Registrar of Co-operative Affairs and this office would have been originally Registrar of Friendly Societies, the lodges; not the fraternal institutions that allegedly practise mystical things but those street things that would have been spearheaded by the likes of Reynold Weekes and other pioneers in this country. Sir, originally, the idea was that the co-operatives of old were like the descendants, the successors entitled of the friendly societies and the original thinking was that when you had a credit union at Ellerton or Tichbourne made up of tiny, small unsophisticated people, then any dire measures that the Central Bank of Barbados could inflict on commercial banks should be forgiven the movement and the movement instead submits to another officer, who would, from time to time, assess its affairs.

Mr. Speaker, the Honourable Member for St. Philip West is saying that this may not be enough and that we really have to go all out. Sir, I am going to agree with him because, I have seen in this country some people wait on the credit union movement. I have seen small men go into the credit union movement in good faith, invest their money and work voluntarily for the credit union movement and build it, taking advantage of the incentives, which this great Party has always provided. Sir, now in the last ten years or so, there are some opportunistic characters from the neau riche element taking management and control of the credit union, some of whom beyond having a briefcase with which to parade in Bridgetown, have no management or entrepreneurial acumen. Sir, some of these fellows are in the movement to enrich and enhance their resumes and CVs. Sir, I have no politician or political person in mind but a lot of these characters, some of whom use to function in institutions that were opposed to the credit union movement, have taken over the management of the credit union movement, at a critical time in this country's history, and we have to be very careful here.

Mr. Speaker, I would urge two things, that the Honourable Member for St. Philip West writes to the Ministry of Commerce and expresses the very opinion which he expressed in here in light of that Ministry's determination to modernise the Co-operative Societies Act.

H113/12:00

Sequence 12

Tuesday, October 24, 2006

Hon. R.C. EASTMOND: A Cooperative Societies Act had been laid here and withdrawn. It was withdrawn because public reaction suggested that it was in need of review. I would want the Honourable Member for St. Philip West, as a patriotic Barbadian, not as a partisan, to enclose his views in an "Estwickian" fashion, not a Democratic Labour Party fashion, suggesting that he understands the culture, suggesting that there be reform of how credit unions are made to function and suggesting proposals to enhance the status of credit unions, while protecting the small depositors, maids, porters, barbers and such like.

Sir, before I make my next statement, I want to pay tribute to those descendants and even the original members of the St. Lucian, Vincentian, Grenadian and Dominican communities who came to Barbados in the late 1950s and 1960s, who settled here and who themselves and their offspring helped to build up the City of Bridgetown Credit Union. The City of Bridgetown Credit Union, through the working of people like Adrian Griffith and others, were able to market the concept of credit unionism in the city, and by city I mean the metropolis of this country.

The original City of Bridgetown Credit Union, when formed, attracted its first membership from metropolis Bridgetown and then it spread. A lot of the descendants of the St. Lucian, Vincentian, Dominican and Grenadian class joined that credit union. Those people came to Barbados with motives, not ulterior, and those people are practitioners of thrift, just like the traditional Barbadian has been. We cannot let their thrift be squandered.

I also want to say, in the context of what the Honourable Member for St. Philip West has said, that any officer of a credit union, who steals from a credit union should be faced with nothing less than fifteen years in jail. Any officer of a credit union who steals from credit union should experience a minimum of fifteen years in jail because they are stealing, not from Herod, Pharaoh, Bowring, Wilkinson nor Walcott. They are stealing from you and me as ordinary working class citizens of this country. Mr. Speaker, a minimum prison sentence of fifteen years, possibly with hard labour, should be visited on any officer, and only an opportunistic character, whose motives are suspect, would fall into this category, of stealing from a credit union.

Mr. SPEAKER: Please, please. Honourable Member, I hope you would not want it to go out from this House that you are saying that stealing from certain people is okay.

Hon. R.C. EASTMOND: Of course not, Sir, stealing, larceny, as it used to be called is always bad. It

was originally a moral crime as enunciated in the Ten Commandment. You should not steal and you should not even covet your neighbour's wife, and certainly not his ass. Sir, stealing is stealing. I am saying that in the context of stealing from the deposits of small people, the sentence should be severe.

Sir, we in here cannot forget that there was in this country the Bank of Credit and Commerce and something called Trade Confirmers. We cannot forget them, nor can we forget what is happening now. There are some non-bank financial institutions, not credit unions at all, which are exceptionally aggressive in encouraging people to come, especially for hire-purchase loans and loans for consumption. Sir, Chapter 324 (a) as originally crafted, had it in mind that one of the protective measures was a high level of capital. The question is, is the capitalisation enough to protect depositors when a badly run institution might blur the distinction of capital and deposits, and then trouble starts.

Mr. Speaker, I know of what I speak. The point I am making is this. We have some aggressive marketing financial institutions, not credit unions nor banks. They invite to come in to borrow for a car. Sir, if you bear in mind how loans were originally made in the financial system, loans originally came from deposits. If you assume that a non-banking non-credit union financial intermediary is asking people and lending wild, a logical question is, what deposit base are they lending from, especially in light of the Trade Confirmers experience. What deposit base are they lending from? Are they lending from capital? They ought not too.

Sir, the Honourable Member for St. Philip West, is bright and has delivered and said that he supported this, subject to some misgivings. In a perfect world, the Honourable Member for St. Philip West would support this unconditionally, but he said that he does not see it as perfect. Sir, to the extent that we on this side are not born big, by-gotten people, I accept that his criticisms were made in good faith, out of a sense of patriotism, informed by powerful consideration of intellect.

Sir, if you have a financial culture where you take into account the background and aspirations of thousands of working-class people, you have to work out how working-class people operate. Sir, working class people are by nature risk averse. How many working class people, whatever the Democratic Labour Party or Barbados Labour Party thinks, will readily buy shares, equity, in a company? They would demonstrate an interest in investment in other instruments. Mr. Speaker, I am going to repeat that. I am saying that the typical working class person from Josey Hill, Checker Hall, Rock Dundo, St. James, St. Peter, or even Rock Dundo Park, a typical working class person who may even have risen to great heights to occupy a certain Chair, Sir, a typical working class person is shy, and risk averse. If he hears that a share in a company, in the capitalist system, gives a five cents return on every two dollar investment, he is not going there, especially when that institution has historically, 60 or 100 years ago, exhibited biases against the working class. What would the working class man do now? The working-class man, woman or teenager, the new middle class, would sit and look at their options. At the end of the day, they want to make sure that whatever investments they make, are met with a proper return and even when the return is not spectacular, that the investments are safe. That is what the typical Barbadian of a certain kind is interested in.

Sir, I would still like to encourage all Barbados to do this. Try to figure out where money can be safely deposited. Try to figure out what types of instruments there are, to look beyond the simple time deposits and savings accounts, which sometimes give 2.5 per cent return and such like. Look beyond that. Look to see if they can capitalise on the investment in the many different types of policies that insurance companies are now offering. Insurance companies have now transcended life assurance, as originally conceived and gone beyond that. Sir, some insurance companies - I hold no beef for them. I am not their agent or marketeer. I am a working class boy, who normally belongs to a credit union, and whose credit union shares have to be protected.

Sir, I would still like to urge all Barbadians to get to understand our financial market, to see what there is beyond the time deposit, to see what there is beyond that simple savings account. I remember the first Barbadians who went beyond savings accounts were interested in netting money higher than what the savings account would yield.

12.10 p.m.

Sequence 13

Tuesday, October 24, 2006

House 113, Sequence 14, 12.10 p.m.

Hon. R.C. EASTMOND: Sir, particular insurance companies have been so creating, that with the benefit of the best possible actuarial advice, one company might have as many as 25 different types of policies, including the traditional life assurance. Sometimes they give you a mixture of life assurance and savings, pure savings and little or no insurance, or a pension plan. I urge all Barbadians, in the context of this debate, to prepare for their old age, especially in an era when life expectancy in Barbados is projected to increase.

I know boys 19 and 20 years old, who have worked out that their life expectancy could be 82 and 83, and some of whom have started to work already towards the golden years. We have to plan our pensions and there are pension schemes available.

Remember too, Sir, as Honourable Members on this side would recall that this administration, since 1994, offered the concept of the Registered Retirement Plan. This is a plan that functioned under the commercial banks. Some commercial banks not originally involved in insurance sell you Registered Retirement Plans, where they, through a mathematical, sophisticated formula take a time deposit and work it with some flexibility, project how much they would get 25 years from now, and then adjust the minimum contribution in such a way, that they benefit and the pensioner benefits, as well.

Sir, all told, one of the principal reasons for this particular measure before this Honourable House is to take into account the fact that the capitalisation of a given financial institution at $5 million, $15 million, $20 million by itself, is no guarantee that a depositor will be protected.

Capital is work. Capital is invested. Investments carry risks. The original idea that no fly-by-night institution with little capital should be a financial institution was laudable up to a point. It was necessary but by itself, it was not sufficient.

Sir, as originally conceived, ensuring that all financial institutions were on a sound capital base, though laudable, was not enough. Sir, talking now about the sort of sophistication that you would get in the financial situation in Barbados, a lot of members of credit unions have to bear in mind that much of what they put in credit unions is not simple deposits, it really is share capital. I would urge the entire credit union family to recognise what risk there can be in holding shares in a credit union, as against deposits.

I would also urge all credit unions to consider what the laws have been, in terms of credit union law to date, and do not act Ultra vires. At the same time, we always have to ask this question. Is an institution which manages $100 million, going to be careful enough and prudent enough to protect all of that $100 million.

Somebody in the Garden, St. James might ask, if a bank attracts $500 000 does that bank lend out all $500 000? That person is naturally saying that if a bank does that, the bank will be reckless.

What some people in Barbados may have believed, including some scholars, is that the liquidity reserve ratio requirement that commercial banks deposit a certain minimum, was like a kind of guarantee to depositors that not every cent they put in banks would be fritter away - lent out by commercial banks. Sir, that is not the modern concept of perceiving a liquidity reserve ratio.

A liquidity reserve ratio is an instrument of monitory policy, designed to affect flows in the money supply. Sir, by itself, it is not guaranteed that the 23 per cent or the 27 per cent that commercial banks put with the Central Bank would protect the depositors. Sir, 23 per cent or 27 per cent of total aggregate savings cannot go towards protecting depositors. Hence, the Honourable Member for St. Michael North West must be commended for putting this thing in its rightful context - putting this thing against the correct conceptual background.

Sir, as I close, the financial law, like planning law, the moment the ink is dry on one statute, you have to begin thinking in terms of another statute. This human existence is infected, or affected by something called a dynamic. Sometimes as you reform law, four weeks after, that law is close to obsolescence.

The Honourable Member for St. Philip West mentioned the concept of utilitarianism. John Stuart Mill correctly perceived to be one of the original founders of that school of thought said that ultimately a society like this, which is the product of Fabian Socialism, should always aim to produce the greatest happiness for the greatest number.

I thank you, Sir.

Mr. SPEAKER: The Honourable Member for St. Lucy.

Mr. D. St.E. KELLMAN: Mr. Speaker, there is no doubt that these three Bills are very important and, I honestly believe that they should have been taken separately.

This country is wrongly focussed. As I have said already, we are more interested in revenue, than we are in foreign exchange. Sir, for the last 11 years I have been trying to highlight the importance of foreign exchange to this country, and what it would take to carry this country forward.

Mr. Speaker, there is no doubt that in this country Barbados, if the Minister of Finance needs revenue tomorrow, he could call a special Sitting of this Parliament. Sir, he does not even have to do that. He can make the announcement and then he can cover his tracks by coming to Parliament and making it law.

If the Minister of Finance needs foreign exchange tomorrow, the Minister of Finance does not have that leverage. We have been caught up over the years, dealing with problems that we could deal with on a day to day

basis, without dealing with the fundamental problems that will correct the problems in this economy.

As far back as we dealt, Sir, with the returning nationals, I said to this House that we are getting a cheap source of foreign exchange and it had to be noted. We have ignored the inflows of foreign exchange that are bought into this country, which we have not even protected but now we are here to protect banks, and everybody else, dealing with a local situation that can easily be dealt with, but not the fundamental problems within the economy that relate to the foreign exchange and persons bringing foreign exchange into this economy.

Sir, in this country Barbados, the statistics have just been shown by no better person, who substantiated the point, Dr. Courtney Blackman, that inflows of more than $226 million come into this country on a yearly basis, from returning nationals and other persons outside the economy of Barbados.

Sir, these persons would have been the beneficiaries of free secondary education. These persons would have used free secondary education, at whatever level, to go out of Barbados and build a base for Barbados.

Asides.

Mr. D. St.E. KELLMAN: Yes, we are dealing with deposits. Sir, because this money is deposited, it must be protected. This is of a higher level.

Asides.

Mr. SPEAKER: I have not said anything yet, Sir.

D. St.E. KELLMAN: Yes. I saw you pointing and I know you well, Sir. I have been here 12 years and I understand when you are not connecting and I want to connect you, Sir.

Asides.

Mr. D. St.E. KELLMAN: Sir, we have travelled together and we understand each other.

Mr. SPEAKER: You proceed, Sir.

Mr. D. St.E. KELLMAN: Sir, returning nationals and their relatives who send money to Barbados must also be protected. They are bringing foreign exchange to this country, and the country is not paying for the foreign exchange.

Mr. D. St.E. KELLMAN: Sir, this country has to pay for the foreign exchange that is brought into this country by returning nationals for the simple reason that when we go to the international markets we have to come to this Parliament and pass laws to protect the inflows that are coming in through the process of loans. These returning nationals bring in foreign exchange and it does not cost the country a cent, yet we ignore their contribution to the country. Sir, that must stop today. Barbadians must know that returning nationals contribute significantly to this country not only by revenue but by foreign exchange, and so I want to see some laws protecting them as well.

Sir, they are our brothers and sisters and people should not curse them when they bring their Mercedes or anything in this country. Sir, they bring hard cash to this country and they have a right to demand the same protection as the institutions because they are institutions too and the same way that other institutions are to be protected, they should be protected too.

Sir, $226 million is not a penny, that is hard cash. We can come to this Parliament and pay foreigners 13 per cent for that type of money but we do not pay the returning nationals one cent for bringing in that foreign exchange. I want to see a deposit account and some insurance for their foreign exchange.

Asides.

Mr. D. St.E. KELLMAN: This is serious business. I know that Mr. Speaker understands the importance of foreign exchange. Sir, we cannot only be dealing with local revenue. This Bill is much bigger than local revenue, this Bill is about foreign exchange. It is not only about local revenue and protecting deposits. Sir, the returning nationals bring in something better than deposits. If this contribution has to be limited, it is limited.

Sir, it is time that people stop seeing credit unions as petty lodges.

Sir, I am very grateful to the Honourable Member for St. James North for carrying the debate and for cleverly behaving like the Minister of Finance, thereby ensuring that the attack was not too aggressive on his side by sharing praises where he felt they should be shared and watering down the punches that landed well. Sir, as usual, that Honourable Member has always been able to bat and to protect the blows that pass from this side. He has a way of putting a spin. He is well-known as the great spinner from Sri Lanka. He has that particular ball that can dilute any attack.

Asides.

Mr. D. St.E. KELLMAN: Sir, I was very happy when I heard the Honourable Member making the point that Barbadians will not buy shares until the climate has changed. Sir, you know that it can be found in Hansard where the point has been made already that Barbadians having $5 000 and $10 000 will not buy shares with that money because at the end of the year a calculation is done based on shares and on the money on the bank and they know that if they have a three per cent at $5 000 how much money they would get at the end of the year, and they know how to budget with that interest.

Sir, when they buy shares, there are a group of people who sits in boardrooms and it is up to them to decide whether or not to pay a dividend even though the company is making money.

I have already said to this Parliament - and I will repeat it for you, Sir, even though I know that you do not need to hear it because you have heard it many times - that until we change the Companies Act to stop giving powers to directors when to pay dividends and change it to tell them when they should pay dividends, we are not going to find poor people buying shares. Sir, you cannot tell a poor man a company is making money, he has shares, yet he cannot get a dividend. The man will put the money in the bank where he knows the bank has to pay him his interest. Sir, we have to understand that fundamental point.

Sir, the capital market of Barbados as it relates to the shares is not about paying dividends, it is about accumulating capital and cash flows for businesses without understanding that the masses want to buy in and they want to be sure that at the end of the year they can budget.

Mr. Speaker, may I ask this House one simple question? How it is that people tell me that Barbadians do not like buying shares, yet Banks Holdings Limited was able to issue shares. Sir, if you check and see who bought those shares, you would find that it is the same people whom you told me do not like buying shares. Sir, that is so because the directors of Banks Holdings Limited were sensitive enough to guarantee the shopkeepers and the small people that they would give them a return on a yearly basis.

Sir, the closest thing to that I have ever seen in any prospectus in Barbados was when the Barbados National Bank went public and sold shares and stated that they would pay 50 per cent in dividends. I remember that well, Sir. What I am saying is that once they are making profits they would pay, that is what has to be shown in order to attract small people into buying shares.

Sir, we need to have a capital market in Barbados that involves the poor people. The poor people of Barbados would not get involved in the capital markets unless they are guaranteed that once the company is making the money and enough money is taken out for capital expenditure and so on that they would get a return. Sir, at the end of the day they are looking for a return.

Mr. Speaker, a credit union, in a sense, guarantee its shareholders a dividend. Sir, when you get your statement, you would always see dividends being paid by the credit union on a yearly basis.

Sir, even though the credit unions are appealing to the masses of people in Barbados, there are people who want to regulate the credit unions to ensure that their interest will be protected and to ensure that people will not put their money into the credit unions but will put it into the banks even though the credit unions are operating in the interest of the masses of people in Barbados.

Mr. Speaker, if you are talking about free market, it must be a free market. You cannot come here and take the conditions off the banks and at the same time want to put a stranglehold on the credit unions. Sir, the same people who tell you that you must do this and do that and free up the banking system want to put a stranglehold on the credit unions in Barbados.

Sir, we await the amendment because I am taking the advice from the people within the credit union movement who are qualified to speak on their behalf. Sir, I hear them on a daily basis speaking about the pressures that would be coming to the credit unions. If the Government is saying that I am wrong, then the Government needs to put the necessary amendments that they want to put in place and speak to the criticisms coming out of the credit union movement so that I could make a fair judgement. Sir, as it stands now, I have to side with those persons from within the credit union movement who understand how certain amendments would affect them.

Sir, why is it that a bank could buy whatever it likes and a credit union must be told that it can only trade in money when everybody knows that the slowest process in the accumulation of capital is through the deposit process. Sir, everybody knows that it is from the real fixed assets that you get the greatest accumulation, yet people believe that credit unions should not get involved in those things, that they should be limited to cash. Sir, everybody knows that the accumulation of profit based on cash is not as great as the accumulation based on what we would call fixed assets in the accounting field.

Mr. D. St.E. KELLMAN: Mr. Speaker, we must be serious. We must understand that if we are to put Barbados where it has to go, we have to have a situation where we have a real levelled playing field. But it cannot be a playing field for those flying in and we are prepared to cut off our heads or to bury our feet, to accommodate them but when it comes to the local people, who are bringing in the same thing, we want to ignore them.

Mr. Speaker, that is why I am saying that the returning nationals are better than the foreign banks lending money to Barbados and they are better than those persons who took the money out of Barbados and are bringing it back. When the returning nationals bring in money, we do not have to pay foreign exchange to service it. It is like new capital.

Asides.

Mr. D. St.E. KELLMAN: I will repeat the point because I know that it hurts. It is like new capital from a new source, without a servicing charge. And that is what returning national do for us. Therefore, why do we want to punish them? We are treating returning nationals like how we treat the credit unions.

Sir, I am saying today that this legislation sounds good, looks good, but it is empty because it does not correct the problems that we have within the economy. Sir, the problem we have within the economy is not one of revenue but one of foreign exchange. That is what we should be dealing with, instead of wasting Parliament's time.

Asides.

Mr. D. St.E. KELLMAN: Mr. Speaker, I am not saying that we should not protect the deposits of the citizens of Barbados, they must be protected, but I would hate to believe that since the Trade Confirmers situation, which happened nearly 12 years ago, that we are now to this point. It has to be more than that. I will not be fooled that in the dying days, this legislation has come to Parliament by accident. There has to be something behind the cloud and I have not had time to look behind the cloud as closely as I should have but I know when I do look, I will find something. This legislation cannot be by accident. There has to be a reason and in the fullness of time, it will be shown.

Asides.

MR. SPEAKER: Proceed, Honourable Member.

Mr. D. St.E. KELLMAN: Mr. Speaker, there is no doubt that we have to understand where we are going within this economy, in light of the point made by the Right Honourable Prime Minister, where it has been stated that our import Bill has now increased by $l billion and where it is clear that if we remove the Cess and the Bound Rates that it would not be $1 billion but $2 billion, and it must be clear that we must find matching revenue to compensate for the expenditure. As you know, there has to be a balance. Therefore, if we do not have the revenue but have expenditure of $2 billion or $1 billion, it would mean that we would have to do two or three things. It means that we would have to encourage returning nationals to bring home their savings; we have to borrow; or we have to sell more land. Sir, the decision must be made today whether because of the trade deficit, we are going to borrow more money to soften the gap...

MR. SPEAKER: Honourable Member, please, I am going to have to ask you now to really desist from this irrelevant material. It does not relate to this Bill.

Mr. D. St.E. KELLMAN: Mr. Speaker, if you believe what I am saying to be irrelevant, I will take my seat.

MR. SPEAKER: Honourable Member, please. It does not relate to this Bill. We have had a wonderful discussion so far, about this Bill. Now you come and are taking us around the world, on matters that do not relate to this Bill. If you persist and continue this way, I will use the Rules and ask you to discontinue and take your seat.

Honourable Member, therefore, in the little time you have, could you make reference to the Bills that are before this Honourable House.

Mr. D. St.E. KELLMAN: Mr. Speaker, my apology to you if we cannot reach the standard taken before. I will, therefore, take my seat.

MR. SPEAKER: I thank you.

SUSPENSION

Hon. R. C. EASTMOND: Mr. Speaker, I beg to move that this Sitting be suspended until 1.45 p.m.

Hon. R. R. FARLEY: I beg to second that, Sir.

The question that the Sitting be suspended until 1.45 p.m. was put and resolved in the affirmative without division and MR. SPEAKER suspended the Sitting accordingly.

12.35 p.m.

(EDITED)

Tuesday, October 24, 2006

RESUMPTION

Mr. SPEAKER: This Sitting is resumed. The Honourable Member for Christ Church East.

Hon. R. R. FARLEY: Mr. Speaker, thank you very much. Sir, I rise to support this legislation which creates the Deposit Insurance Fund. Mr. Speaker, this legislation is part of the commitment of Government and part of the ongoing programme of Government of the reform of the financial sector in this country. Sir, specifically this particular aspect of that programme, which has been ongoing for the last several years, provides for the establishment of this Deposit Insurance Fund for the protection of insured customers, particularly geared at the small investor and to give wheels and weight to that, the creation of a corporation to so manage and administer that Fund.

Mr. Speaker, as was noted in the presentation of the Honourable Member for St. Michael North West, deposit insurance schemes are designed to ensure a measure of protection for depositors in the banking system because we have the reality that there can be either individual bank failure or systemic failure, affecting the sector as a whole.

Mr. Speaker, it is noteworthy that some 85 or so countries around the world have these deposit insurance systems in place. These systems, of course, do not prevent one from having a collapse but, however, they cushion the effect of any collapse, if it occurs. Sir, this corporation and entities which administer these deposit insurance schemes, like other forms of insurance, do not sit idly by on the sidelines and wait to see if something would happen. Therefore, this measure of protection would naturally go hand in hand with more effective regulations, supervision and onsite inspection of financial institutions to make sure that even though we are putting this safety net in place, that we do not have to use it.

Mr. Speaker, this is akin to the net which a trapeze artist, window cleaner or other persons engage in working at great heights tend to use. They put their safety net in place just in case, but the intention is to take all the necessary precautions, so that the net would not have to be, at any time, used.

Mr. Speaker, this legislation is important against the background of the reality of the world in which we live. Sir, you would recall that over time, there have been a number of spectacular financial collapses and scandals. We have at the international level, the Asian contagion caused by a rogue trader in the Bahrain Bank, I believe it was Mike Gleason, whose actions, as an individual but in a key position, not only destabilised his bank but...

H113/13:50

Sequence 17

Tuesday, October 24, 2006

continuation Hon. R.R. but because of the scale of transactions, had a profound impact on investment banks in Asia that spread to North American, Latin American and threatened the very core of the financial system.

Sir, you will recall that even here in Barbados, we had the Trade Confirmers, an international matter, but because they had a branch in Barbados, they are Barbadians who lost money in Trade Confirmers. Sir, to them, this matter of a Deposit Insurance Fund, would not be esoteric matter for central bankers and economists and those types. This will be a matter that were it in place, when they were depositors in Trade Confirmers, they certainly, not that they would have been absorbed from the responsibility of analysing their investment instruments, but there would have been some measure of a safety net.

Sir, let no one fool you, when we are dealing with deposits and depositors, we are not just dealing with large institutions, like the National Insurance Fund or insurance companies with surplus cash to invest. We are not just dealing with lawyers , doctors and those well-off professionals. We are dealing often with a person that would have been a machine operator at a factory for thirty years, the factory closes, they received severance payment and they are advised in a kind of general sense that if they keep the money on the bank they are going to spend it, so invest it. Sir, they respond to some glitzy advertisement and made deposits in institutions, some of them even commercial banks.

Sir, you are dealing with people who might have been involved in an unfortunate but a serious motor vehicle accident. After going through, not only the pain and suffering of the injury, but going through the rigours, which may sometimes involve pain and suffering too, of having to deal with the doctors, therapist, lawyers for the various parties, and all concerned they get their settlement, $300 000, $900 000, $1 000 000 or whatever the amount. Sir, of course, the higher the payment, it means the worse their permanent disability. Of course, they have to put their funds to use. That will represent their life's income, because in many cases they cannot work again. Sir, these are the kinds of persons who will also be involved as depositors. Especially in those cases where there is no essential correlation between investment savvy and the availability of surplus funds. Those persons are the ones who would invariably suffer most in these scandals and collapses.

Sir, remember that this environment, in which we are introducing this Deposit Insurance legislation, is an environment in which the world, correctly so, has an

increased focus on corporate governance, in light of the Enron scandal, where directors of the company manipulated stock values, and where the auditors, Arthur Anderson, were involved in accounting fraud. Sir, if you cannot trust the auditors, who can you trust? Sir, auditors, in the dead of night are destroying documents and destroying the paper trail.

Sir, none of these deposit schemes seeks to absolve individuals from the responsibility for making decisions with respect to their investments, but they recognise two things, one, that the State has a responsibility to establish proper prudential norms to have strong inspections in place and also tjat we must put that safety net to ensure that depositors can have some confidence that there will not be a total loss of and a total wipe-out in this regard.

Sir, what has the Government done in this area over the year? This is not the first reform of the financial sector, that is being undertaken. You will recall that this administration has recognised that there needs to be a wide range of instruments available for investment, from the very safe to the more risky, and you know the risk return correlation. We have to give people an opportunity to invest in speculative interest, and to earn some substantial rates of return, but also prove those safer instruments.

Sir, you will recall that some of the innovations that have been made part of the financial system over time, have seen the market change from the commercial banks being the virtually exclusive instrument of financial intermediation, to they being new and more varied instruments. There was a time when there was no such thing as mutual fund companies in Barbados. Individuals did not have an opportunity to pool with other individuals to invest in a range of securities, without having to bother aout their individual management.

Sir, do you recall that there was a time in this country, when there was no such thing as a Venture Capital Company? Sir, it was this administration - the Enterprise Growth Fund, the Barbados Investment Fund and Small Business Venture Capital Inc. - that provided those instruments of intermediation to move surplus funds in the direction of investment, especially.

Sir, do you recall that there was a time in Barbados when there was no such thing as a Stock Exchange, when companies did not have that particular marketplace and opportunity to tap into surplus funds where there are available? Of course, even with those changes, commercial banks are still, by numerical means, the major instrument of financial intermediation, and is bedrock of the financial system. The bulk of our regulatory measures obviously have to be aimed in that direction.

Sir, over the past decade, the environment in which financial institutions operate has changed, not only at the level of their operation but the legal and administrative framework.

Sir, do you recall that we put through the Financial Institutions Act, in 1997? Do you recall that we have established a Securities Exchange Commission, to make sure that there are specific regulation of the security sector, a separation, a Security Exchange Commission, with its own legislation to stop the Stock Exchange from being an institution that did its own trading and then supervising itself?

Do you recall that the Insolvency legislation was introduced to provide for the winding up of insolvent companies, as well as the amendments to International Business Companies Regulations as well?

Sir, this Deposit Insurance Act is really part and parcel of this continuous process of financial sector reform, but it is a key part of it. I stress that point because the banking sector still occupies the largest space. I believe that if you measure total banking assets, as a percentage of Gross Domestic Product, it would be somewhere in the region of 79 per cent. If you measure the assets, of commercial banks as compared to the rest of the financial sector, they represent the majority again.

In fact, the banking industry in Barbados, has never been as profitable as it is today, neither has it been as competitive as it is today. In fact, the entrance in the last three years of three new banks, into the banking sector, has ushered in a new period where banks are competing...

14.00 p.m.

Sequence 18

Tuesday, October 24, 2006

House 113, Sequence 19, 2.00 p.m.

Hon. R.R. FARLEY: ...not only on price in terms of interest rates, but they are competing in terms of risks.

Do you know today that bank managers are no longer glued behind their desks with their doors locked, as they used to be many years ago? In fact, Sir, there was a time if you did not have a lot of money, you would not even have known who was the bank manager.

Today, Sir, because of the competition, bank managers are getting up, not only out of their chairs but they are leaving the building. They are going out and knocking on doors, seeking investment opportunities. They are approaching clients and saying: “Look Skipper, I notice

that you are putting up some condominium units, can we take a stake in that? How are you financing it?"

Asides.

Hon. R.R. FARLEY: That is right. Management by walking about. It is a well-known strategy but it was never used by the banking sector, in the days when the banking sector could only have been described as highly oligopolistic.

When you look at the early days of the banking sector, not only were the interest rates all the same, but terms and conditions were all the same. Walking in one, was like walking in the other. Remember, Sir, our banks were traditionally English and Canadian colonial banks.

There was a period in the early 70s when a few American banks sought to enter the market, Chase and City Bank and they sought to gain a market share and introduced some competition. But sooner or later, Sir, who did not fall in line, fell out and it went back to business as usual.

In fact, that lack of competition and a narrow focus on short terms loans - loans less than three years - loans to the distributive sector, overdrafts and those kinds of loans, were the predominant stock and trade of the banks. They did nothing, or hardly anything for the productive sectors, by way of longer term loans, or taking greater risks. Sir, that was one of the reasons why the Government decided to establish a Barbados National Bank. It was necessary at that time to intervene directly in the market and provide a new direction for financial intermediation.

In today's period, it was recognised that there was a need for a greater international focus of our banks to form strategic alliances with banks that had new products to offer, had access to larger pools of capital, and had a larger and more diverse cadre of professionals, particularly those who lean towards investment banking.

You would note, Sir, that since the Barbados National Bank was so wisely partnered with its new strategic partner by this Government, making the bank a larger bank and a better bank, that the other two indigenous banks have gone in that direction. They have partnered with new international banking partners. They are offering more services. They are offering better rates. They are offering better terms and conditions.

Therefore, Sir, not only at the level of legislation and the policy framework, we have been able to influence the outcomes in the banking sector but by making wise decisions, concerning our own investment at that time. I must tell you, Sir, that the Barbados National Bank continues to perform well.

In fact, a review of the banking industry for 2005, comparing the performance of all the banks, showed that the Barbados National Bank had the highest earnings of all Barbados banks. Their earnings in 2005 were some $39.7 million, and that is up 15 per cent on the 2004 earnings position.

You would note, Sir, that bank has not only been very aggressive in the mortgage market, but also it is one of the first banks to seriously push the Small Business Loan Guarantee programme, a facility created by the Central Bank. The other banks were shying away from it, preferring to force small business people to come with other guarantees and forms of collateral. The Barbados National Bank, Sir, under new management and new direction, is moving in that investment facilitation direction.

Sir, banking as a whole in Barbados is profitable. We want it to continue to be so, but we want an era of stability and certainty for our depositors. However, we are happy that this spirit of innovation and competition, have caused new products and services to be available to our people. Therefore, the Barbados banking sector in 2005, for example, as a whole had net income of some $139 million, and the analysts say that is up 6 per cent, over what it was in 2004.

What I find interesting, Sir, is that deposits, which is the subject of this legislation, in our local banks increased by some 13 per cent in 2005, over the 2004 figure. In fact, deposits have experienced double digit growth, over the last four years.

You would recall, Sir, that the Rt. Honourable Member for St. Peter, Prime Minister and Minister of Finance, for several Budgets in a row, when he was speaking about building capacity, and instituting a number of financial sector reforms, one of the objectives he always stated, was increasing the rate of savings.

He recognised, Sir, that as a middle income developing country, we had to finance our own development. We needed to have institutions, which had the financial surplus, but also had the technical capacity and innovative spirit to be involved in underwriting development projects. There has been some improvements but we are not where we want to be, Sir.

It is still true today, even though there has been some improvement, that when it comes to serious financing of infrastructural development in Barbados, we have to look to the foreign banks, or to float bonds on the international market. What we want, Sir, is a financial sector, which would not only deal with the traditional safe areas of lending to the retail trade, lending for cars, credit cards and other forms of consumer installments, but banks which

would also lend for building infrastructure, and float bonds for investment in projects. We started on that road, and I want the banks to continue.

Again deposits, as I said, which is the subject of this legislation, increased. Sir, some $560 million were deposited in 2005, up 13 per cent. Sir, interestingly as well, of that increase, $240 million represented increased personal savings.

Sir, this legislation then, aims to make sure that those individuals who put their money in the banking sector, or other institutions to which the Financial Institutions Act applies, would be able to be a little more comfortable and confident.

House 113, Sequence 19, 14:10:14

Tuesday, October 24, 2006

Hon. R. R. FARLEY: Mr. Speaker, I want to extend the caution that neither this form of safety net - which has not give 100 per cent protection, it has a cap, up to $2 500 - nor the fact that competition within the banking sector has made money more readily available should not lead people to be less than careful in choosing where to place their surplus funds nor to take credit without any consideration of their capacity to repay, the possible changes in their lives and the possible changes in their earning circumstances, which could cause a problem down the road. Sir, that is especially true in the whole area of personal credit.

Sir, today, the financial institutions in Barbados are becoming like the ones in the United States of America. We never thought, I am sure, that the day would come in Barbados, given the kind of banking environment in which we grew up, when banks would be writing you, calling you and begging you to come in for a pre-approved credit card. Years ago, certainly in my time as a young man coming up, the only credit card available was American Express, which was available through their agent BITS, I believe it was at the time. One or two might have had Visas through Barclays, but that was limited to a number of people, you had to be travelling or had local contact. Those Visas were used only for overseas travel and for payments overseas because there were no facility for using credit cards in Barbados. Sir, that was only 15 or 20 years ago. Sir, today credit cards are available...

Asides.

Hon. R. R. FARLEY: Sir, the reality is that access to credit is now more widespread. The banks are not picking and choosing. Sir, I am just urging, using the Floor of this Parliament, that even as we are happy with this competition and innovation in the financial sector, that Barbadians exercise care, because at the end of the day whether in this country or in any other country in the world, it is still the responsibility of the individual investor to analyse risk, to make choice of alternatives and to reap the benefits of the fantastic gains if they chose right, or to bear the loss if they choose wrong.

Sir, it is recognised here with this legislation, as in 85 other countries, that small investors, who would usually not have access to the information that large institutional investors would, should have a measure of protection. Sir, this is what this is all about and I very fully support it.

Sir, I want to give fullest support to the Central Bank of Barbados that over the last several years has done a fantastic job in striking the balance between financial sector liberalisation and having increased supervision and regulations not only in the domestic sector but also in the offshore sector.

Sir, one of the debates, I have not heard much about it of late, that we used to have very often years ago was the whole question of convergence and the extent to which we could move, as we look at the future of the international financial services sector, to a single regime. Sir, that would not happen in one fell swoop, but with closer supervision. Sir, countries overseas in what we could call our source market would be more accepting of offshore institutions if they are operating in a regulated regime rather than in one where there is no regulation.

Mr. Speaker, the Central Bank of Barbados has been working very hard on improving their regulations. Barbados, through the Central, Bank of Barbados, accepts the BASLE recommendations. We are members of the Edmont Group and other international financial regulatory institutions, and those prudential norms established there are the flip-side of this legislation, making sure that we know what our banks are doing.

Sir, against that background, I am happy to support this Bill before us. I am sure that the other aspects of financial sector reform, which are both consequential to this main Bill as well as the other package of things to come as indicated by the Minister of Finance, and the Minister of State in the Ministry of Finance will continue to improve Barbados' financial sector to ensure that it is more responsive to our development needs by providing both an opportunity for an increase in savings and earnings by depositors as well as through financial innovations providing a pool of funds for developing this country of ours.

Mr. Speaker, I thank you.

Mr. D. J. H. THOMPSON: Mr. Speaker, Sir, I want to say a few words on these pieces of legislation. I want to

start by complimenting the Shadow Minister for Economic Affairs, the Honourable Member for St. Philip West, for what I thought were well-researched and well-developed arguments in relation to the purport of this legislation.

Asides.

Mr. D. J. H. THOMPSON: Many people seem to believe that the world began in 1994. Sir, if there is one person who should not believe it... Perhaps, the Honourable Member for Christ Church East is an unlikely convert to that view, and is probably unwilling to. Sir, his natural political instincts stop him from remembering that in 1992 major reforms in relation to the financial sector in Barbados were commenced.

Mr. Speaker, I have been in this Chamber long enough - right now I am the longest person to be in here. Sir, when the then former Minister of Finance, Sir Lloyd Sandiford piloted, through this Parliament, the Financial Intermediaries Regulatory Act, he was wrongly criticised by the Barbados Labour Party for using the word intermediaries, but I remember very distinctly, and the files would show, that the then Minister of Finance felt that what Barbados needed was a piece of legislation that dealt with the regulation of financial intermediaries as a whole. However, there has always been a powerful lobby against the regulation and the tidying up of deposit-taking companies.

Sir, I am surprised that the Honourable Member for Christ Church East, whose knowledge of these things I know is very great and perhaps whose knowledge of history in Barbados is great, did not say why. Sir, I am also surprised at the Honourable Member for St. James North because we all know what deposit-taking companies in Barbados are. Sir, anybody who reads the book on the history of the Barbados Mutual or the reports written by persons from the financial institutions who come to review the financial sector or anybody who goes in to the University of the West Indies and looks at work that has been done on the financial sector in Barbados will recognise the powerful influence that the owners of deposit-taking companies in Barbados exerted.

House 113 Sequence 20

2.20 p.m.

Tuesday, October 24, 2006

Mr. D. J. H. THOMPSON: Mr. Speaker, when, in 1991, those reforms started, it was almost impossible, at the same time, to undertake major changes. There was also great resistance to making those changes because what we would have been doing would have been unlocking some very deeply held secrets from colonial times - not those like the Holy Grail - but almost the economic Holy Grail of Barbados.

Mr. Speaker, that is why I am saying that we cannot have an entity debate such as this, that is devoid of history. We are not really talking about deposit-taking companies in Barbados, or about people who have $25 000 deposits. There are not that many people with those kinds of deposits. Furthermore, the system was self-regulating. There was no need for it to be regulated by the Central Bank because the people who regulated it, met every weekend. When those who hold the little $25 000 deposits, whoever they may be and they are not that many, were out frolicking and doing what they might have been doing on weekends, this very powerful group of men were lunching together. Therefore, they were not going to sit idly by and see the demise of an institution, in which much of their families fortunes, may have been held. As I said, it had a self-regulating procedure. As I said, we have newfangled talk now and I would think that the Government would be more interested, at this time, in dealing with the issues that confront the Credit Union Movement, where it is clear that even the children of civil servants, who may hold small deposits, are not protected. I also think that Government should enter into a genuine discussion with the fast-growing Credit Union Movement, which is growing in terms of numbers and in terms of the size of assets they control and manipulate, then I would say I could sense a philosophy of financial institution, engineering and so on, that would be relevant to a modern Barbados.

Mr. Speaker, I am not saying that deposit-taking companies should not have their act cleaned up. I am saying that would happen anywhere, but there is a reason why that would not have been important 20 years of 30 years ago, but as a breath of fresh air enters some of the corridors of some of the bastions of wealth in Barbados and changes are made, then it becomes necessary, since the system is no longer, in essence, self-policing, for the State to perform its role of protection.

Mr. Speaker, we have a greater obligation, by far, as a Parliament of - I assume - the children of parents who never had money in any of these deposit-taking companies but whose brothers and sisters have deposits in credit unions; whose parents may have built their houses out of a credit union loan, and in an environment in which the credit unions are forced because of the current financial environment in this country, to hold their liquid assets in institutions that are not even Barbadian-owned anymore.

Mr. Speaker, there was a time when that was an issue but I say, for me, that the world did not start in 1994, nor in 2006. Therefore, if one were to do a careful historical analysis of what has been happening in Barbados, then the philosophy of whom we represent and where our greatest concerns should be, at this time, in Barbados,

would emerge. Sir, that is why I compliment the Honourable Member for St. Philip West for focusing this debate on those issues, which, to my mind, are most relevant to the average Barbadian.

Mr. Speaker, can anybody give me a breakdown of these deposits that deposit-taking companies hold? How many of them are under $25 000? What is the average size of them? Who holds them? Sir, that information, to my mind, when contrasted against the need for protection and for certain other important amendments to be made to the relevant legislation governing the credit unions in Barbados, is vital.

Mr. Speaker, we have not done anything big in here today. For some time now, Trinidad has set up an Insurance Deposit Corporation. Jamaica has done it. There are financial sector reforms throughout the Caribbean. These things have taken place without very little fuss and I am glad that we were not necessarily making as much fuss about deposit-taking companies but I say we should be making a lot more fuss about the situation relative to the Credit Union Movement in Barbados and in assisting that Credit Union Movement innovatively to go forward and to develop.

Mr. Speaker, what I also think is even more important, is reform in relation to the corporate sector in Barbados, as a whole. This includes things such as interlocking directorships, which, in essence, would have been acceptable and were at the very heart of the policing arrangements that existed in relation to deposit-taking companies before.

Sir, the standards that are required of directors of deposit-taking companies in Barbados... In fact any company that has to meet prudential requirements to the regulatory authorities in this country, as well as those listed on the Barbados Stock Exchange, as well as those that receive substantial contracts from the Government of Barbados, to undertake public works, for instance, Government's contracts and Government's patronage, these need to have prudential standards set as well. It is not only those that are operating in the Financial Services Sector.

Mr. Speaker, there also need to be more clarity about the definition of instruments held by persons going to financial institutions. There needs to be some clarity between the difference of a simple deposit, a fixed deposit of a longer term, or what is called an annuity. There is a lot more clarity that is needed to assist the regulators, to understand what they are regulating.

Sir, what has happened, in recent times, is that requirements have been superimposed on small economies, with very small inspection units in the Central Bank - small supervisor of insurance office, small credit union regulator, small whatever - and these requirements have not been supported by domestic legislation, that has clarified many of the long-standing issues, which predated those requirements to deal with issues such as money laundering, et cetera.

Therefore, very often what a company may be promoting and advertising, may not strictly fall within the purview of what it is entitled to promote and advertise under the relevant legislation but the regulators do not have, at their disposals, the legal tools to deal with situations such as those. That is another area of major reform that is going to be necessary, to assist regulators in meeting their international obligations, as well as functioning effectively under domestic legislation.

Mr. Speaker, the Democratic Labour Party is in support of this Bill. In fact, the Democratic Labour Party has been in the vanguard since 1991 of putting in place major financial sector reforms. The programme with the Inter-American Development Bank stood very solidly on that basis. In fact, the very legislation that is now being amended, much of it had undergone major overhaul in the 1990s, to prepare Barbados for a more modern era of financial intermediation. I think that from that point of view, any changes that are made that are relevant to the development of that sector, would get our support.

Mr. Speaker, we believe it is time enough now that Government gets serious about looking at ways to enhance, to promote, to develop and to secure the Credit Union Movement in Barbados.

2.30 p.m.

Tuesday, October 24, 2006

(EDITED)

Mr. SPEAKER: The Honourable Member for St. James Central.

Hon. K.D. SYMMONDS: Mr. Speaker, I rise to associate myself with this Deposit Insurance Act and the related piece of legislation now attracting the attention of the House. I would want to begin by indicating my own personal support on yet another useful initiative in a raft of economic and financial measures which have come to this House throughout the last few years, which are aimed, collectively, at piercing the escapist veil of a discourse, politically, in which policy has no part to play.

Mr. Speaker, not only in the context of cheap electioneering but, in the day to day context of providing for the well-being of the Barbadian man, woman and his and her family, there is a role for substantial policy

intervention. These policy interventions have to be discussed and, indeed, grounded. The lead spokesperson on this matter indicated when he presented the Bill that they have to be grounded in a clear view and philosophy of what you understand you want your development path to be.

Mr. Speaker, in discussing this matter, it is perhaps useful to begin by looking at Barbados today and the context in which we find ourselves. We are a country which currently enjoys an internationally respected and recognised strong financial system. It has not been tarnished by the agony of many of the Asian developing counterparts, which we would have, and we have not gone through the kind of contagion and crisis which they have experienced. Equally, Sir, the regulatory environment itself is well-recognised and respected as possessing, in the language of the Governor of the Central Bank of Barbados, an excellent quality of governance, and, Sir, that is across all our financial institutions.

Mr. Speaker, in addition to that, we have a very strong local currency deposit base, which I think now measure somewhere in the vicinity of BDS$6.7 billion. Sir, that is the Barbados today in which we find ourselves and, as we move forward, I think we have to adopt a very broad view as to how Government is going to poise and reposition this country so as to make the most of any realistic financial opportunities that stand before us.

Mr. Speaker, I want to say at the beginning that there are two areas of specific benefit which we can enjoy. One is from the perspective of the external related impact of this legislation and the other is the domestic related impact. Sir, I first want to speak to the external related impact. I listened to the two spokespersons with respect to economic affairs and finance for the Democratic Labour Party and it is a matter of some regret that it does not come out in that which they are heard to say, that a Democratic Labour Party in 1989, which was full of vision, saw the wisdom in a single market and economy exercise.

Mr. Speaker, the single market exercise was not simply about dismantling barriers to trade and identifying and pulling down 400 pieces of legislation across the Caribbean, which stood in the way of Barbadians or other people selling goods and providing services across borders. It was not only about trying to build corporate enterprise up to a point where they could move with confidence across this region and reestablish in every single Caribbean country but there was a specific long-term vision and a magic to that vision. There was an understanding that the world was moving into big trading blocs and that if we are to be competitive, then our people needed to have that experience and to have a supportive legislative infrastructure to enable them so to do.

Mr. Speaker, in the context of that understanding, the single economy became the most attractive aspect of it, at least for me. Sir, when you speak to single economy, you are speaking to the unrestrictive movement of capital and unrestrictive investment flows across these sovereign States of the Caribbean.

Mr. Speaker, we need to understand Barbados' reputation for a strong financial management, the fact that we have long avoided the kind of financial crisis which I spoke about before. Sir, those things should point us to the fact that we are excellently positioned to become a hub, a receiving station for investment flows from across this region. Sir, it is an important point because of the fact that it allows us to have a point of departure when we are talking about the politics of development. Sir, if we depart from a fundamental understanding that there has to be a developmental pattern which is not only going to rely on foreign exchange investment coming outside of this region but that, in fact, there is a lot of business being done in this region and that Barbados can be positioned as a hub to receive a lot of that investment. Sir, a lot of that comes from small businesses.

Mr. Speaker, I am going to make this point very clear to the House and I speak from the bottom of my heart when I say this. Sir, we have to begin to understand that small business is what is driving not only the regional economies but global economies. Sir, in Great Britain, they went out of their way to protect their small businesses up until 1955 against all and whosoever would come. The United States of America today, in every sector, whether agriculture or commerce - in fact, they have so set up their Federal structure that at the State level, the Federal level and the Municipal level, you will find different levels of legislations which are designed and operate to ensure that competition, coming into the United States of America to impact on the well-being of their small businesses is deflected.

Mr. Speaker, the point has to be made that this legislation begins to target a critical issue that we have to deal with in the Caribbean with respect to that kind of business. Sir, whenever someone is looking at coming to do business in Barbados from outside of Barbados, he is not only interested in the fact that there may be bilateral investment treaties or double taxation agreements. He is not only interested in the fact that corporation tax in Barbados is being increasingly reduced to make investment in Barbados, by way of company, more competitive. Sir, he wants to ask two fundamentals, that we have persistently and consistently ignored prior to today, which are these, Mr. Speaker. If I as a Jamaican, can enjoy a level of insurance with respect to deposits that I hold in Jamaica, then what is the substantial attraction of moving funds to a jurisdiction like Barbados, where I do not enjoy that kind of benefit? If I can do it as a Trinidadian, then why should I

be prepared to move funds to a jurisdiction like Barbados, where my deposits are not going to be protected in the same way? If in the financial capital of the Caribbean today, the Bahamas, I cannot as a Bahamian, on the periphery of a single market exercise, without putting my whole foot into the occasion, stand on the periphery and say that I can be players in CARICOM but I have a position in terms of my deposits in the Bahamas that allows me to enjoy the protection of knowing that those deposits are ensured, why should I be seeking to invest in Barbados where I do not enjoy such a quality of protection.

Mr. Speaker, the fault is in ourselves, not in the stars. Sir, you have, therefore, to correct that situation. Equally, any such potential investor is going, in my view, to be looking at the fact that if an institution with which he is not doing business, but if he moves his investment to another jurisdiction he would have to do business with it and if that institution fails, what guarantee does he have, which would give him confidence in the overarching stability of the financial system.

H113/14:40

Sequence 22

Tuesday, October 24, 2006

Hon. K.D. SYMMONDS .: These are things that people are going to be asking about. Therefore, it follows, that if you are charged with the responsibility of carrying forward the economic management of a country, that becomes a critical policy discussion. That is why I am among those, and I gather from what I hear that there are many out there, who share the view that it is unusually unimaginative at best, not to be willing to engage in discussion on policy in politics.

Sir, the challenge we are going to have, is how we are going to reposition Barbados as a hub for regional investment and how we are going to be able to ensure that we capture the surplus funds in a region which is awash with liquidity at all levels. That is the challenge that we have. I think this is where this legislation makes itself particularly attractive.

Sir, it is as though, we do not understand sometimes, that externally driven interest in Barbados, is what will continue to put the effort that we have made in educating our human resource, that is what will continue to ensure that our people are able to continue to work and our unemployment levels come down. Sir, as you walk about Barbados you see it.

Sir, there are people who have left CARICOM points of origin, to come to Holetown and are doing business. I went into Sheraton Mall recently, and found Trinidadians in there conducting business and employing Barbadians. This weekend I was at Quayside Centre and I saw the same thing, Sir. The fact of the matter is, wherever you go you are seeing it, and it is driven by facilitating and responding to those needs.

Sir, on the internal side of the equation, there is also a need for us to address this matter as well. We are talking about a system, which is being introduced by this legislation, which will deny the Government of Barbados, access to funds in the Consolidated Fund, but would put those funds instead, at the disposal of creating and maintaining a policy framework, which would be protecting the depositors in this country. Do you understand what we are saying, Sir? A Government is prepared to say to its citizens, that the Government will not utilise those funds, but we will put those funds at the disposal of the average Barbadian investor and depositor.

Sir, I heard the Honourable Member for St. Philip West. He condemns the fact a ceiling is set at $25 000. It is as though there is not an understanding, implicitly in the process that there has to be room for an increase. There will be room for amendment.

Mr. Speaker, the issue has been raised about the credit unions. There is a certain fairness that is built into this process. Credit unions in Barbados today enjoy some flexibility that those other deposit-taking institution under the Financial Institutions Act do not enjoy. Equally, the reality is, in the context of their day to day business, credit unions are in many ways hindered. A credit union does not enjoy the right to invest in real estate, in the speculative way that many others do. It would be correct to say that they are not issuing cheques, like many others are doing. Sir, a number of financial services that others are enjoying and the right to exercise those financial services, the credit unions do not have that opportunity. Sir, inherent in the legislation, is the mandatory nature of that which is being done. We are saying that all institutions which fall or are captured under the legislation, will be mandated to fund the proceeds of to the new company which is being created.

Sir, it means is, if you have holdings of $500 million in insurable deposits, you are asking the credit unions, if they were to be part of this, that every year they would be paying $250 000. The fact of the matter is, the time will probably come, when after much dialouge with the credit unions, we are able to bring them under the regulatory environment, led by the Central Bank of Barbados. I really am not satisfied in the view that this is something that should be arbitrarily done and inflicted upon the credit union movement of this country, because every one of the deposit-taking institutions that is captured here, is mandated to pay from their holdings contributions on an annual basis.

Mr. D.J.H. THOMPSON: On a point of order. The Honourable Member is building up a straw man, simply to extend the time for which he speaks in here, but he must not attribute to Honourable Members on this side, things that they have not said. Nobody has said that the credit unions need to be brought under this legislation. In fact, we made it abundantly clear, that there has been other and there is other legislation, which the Government has brought, to deal with the protection of savers under the credit union, that needs to be looked at and dealt with urgently.

Sir, nobody is arguing that the credit union needs to be brought under this, and we do not adduce those kinds of ignorant arguments any way.

Asides.

Mr. SPEAKER: Honourable Member, the word ignorant.

Mr. D.J.H. THOMPSON: Sir, I am saying that we do not adduce ignorant arguments. I am saying that we do not adduce ignorant arguments in here.

Mr. SPEAKER: Honourable Member, I would not expect you to.

Hon. K.D. SYMMONDS: Sir, I do not know if you have made a ruling.

Mr. SPEAKER: Honourable Member, proceed.

Hon. K.D. SYMMONDS: I would say as I proceed, for the benefit of the Honourable Member, he should adopt the useful habit, I find, of reading his speeches in Parliament, so as to ascertain the quality of his argument.

Sir, the question of where we are going with this legislation has to be addressed. There is a need to understand, that security for deposits is key to the integrity of the financial system. There is at least one Honourable Member on that side, who would have been in Parliament, long enough to have known that there was a time - even though he opposed the changes to the arrangement publicly, but did something else privately, but that is a different matter- when the Barbados National Bank would have been owned by Government. At that time, the arrangements were such, that all depositors would have had the benefit of a guarantee, because of the ownership arrangements of the Barbados National Bank, all depositors of the Barbados National Bank would have had a Government backing to their deposits. Sir, when that changed, the only institution in Barbados, at the time, which would have been able to give its depositors such a guarantee had disappeared. There were no other deposit-taking institutions where there would have been that type of arrangement.

The fact of the matter therefore is, if there were a concern or a criticism of the privitisation of the bank, and this weeping, wailing and gnashing of teeth that you would hear today about credit unions, et cetera, if there was a genuine feeling from across of the Floor of the House on those matters, it may have been heard then, but we know it was not.

Mr. SPEAKER: Honourable Member, could you move on, please. That is not the point that is being debated today.

Hon. K.D. SYMMONDS: In our financial system, a depositor with the Barbados National Bank would have had the security of knowing that guarantee existed.

Sir, what we are proposing today is to reintroduce to Barbados, not only at one agency level, but across the financial system, a practice which ensures that system wide, there is access to a minimum of $25 000 in insurance, as a first step.

14.50 p.m.

Sequence 23

Tuesday, October 24, 2006

House 113, Sequence 24, 2.50 p.m.

Hon. K.D. SYMMONDS: Sir, a reading of the legislation indicates that it is only a first step, because, again the creative way in which it is done, will allow the new corporation to function essentially as if it was a liquidator. It is going to be able to reorganise. It is going to be able to restructure. It will be able to take assets under its control. It will be able to manage the restructured entity, during the process of reorganisation and restructure. In fact, it will be able, if the need arises to dispose of those assets.

A level of confidence is therefore imbued into the process, so as to ensure that whenever the exercise of liquidation is completed, those deposits which exceed $25 000 and, therefore, would be treated as unsecured deposits, would still - according to a set order of priority - be able to be compensated or indemnified.

It is a question of reading and understanding the legislation, so that we are at a stage where we have replaced a system in Barbados, in which unless you were banking with the National Bank, you did not have a guarantee to your deposit, with a system wide approach to guarantees. I do not know what is the concern about the limit at $25 000.

Sir, the $25 000 is only a first step and deposits in excess of the insured limit, uninsured deposits, as they would be called, would then fall within the priority of claims. Late claims, unsecured creditors and others would be able to benefit, under the legislation.

Mr. Speaker, I do not expect that you would hear a lot of hue and cry from the Democratic Labour Party on that point, because of the fundamental way in which it transforms the relationship. I want to say, Sir, that there is a very clear approach that the Government has been taking to these matters.

I have absolutely no doubt that there are very few, if any people in this House of Assembly or indeed the Other Place that would be insensitive to the Credit Union Movement in Barbados. It is also a fact that must be read into the records of this House that there have been ongoing discussions with the Credit Union Movement, and the Ministry of Commerce, with a view to finding the best and most efficacious way, in terms of fairness to all sides of protecting their interest, while introducing a level of increase regulation, because that too must come.

I do not hear that from the Other Side. I hear talk which does not suggest that included in the concern must be increase regulation or more efficient regulation of people's deposits, equally, a protection for those who are depositors. It is as though those discussions are not taking place. It is equally true to say that the Government has taken a very deliberate approach to the whole question of the transformation of a number of our financial services. Therefore, there is needed for us to look at the whole package, holistically.

I am even minded to draw to the attention of the House, so that later on in the day, we do not have to deal with unfortunate broad swipes and other types of attack, that it is necessary to understand that the corporation is empowered to borrow from the Central Bank of Barbados. It can borrow from the Government. It can give guarantees. Therefore, there is a built-in provision, Mr. Speaker, to ensure sustainability and the viability, not only of the corporation but of the system, as a whole.

Asides.

Mr. SPEAKER: Order, please.

Hon. K.D. SYMMONDS: Almost every possible loophole that you could envisage, has been addressed and has been plugged.

Mr. Speaker, it does not come as a surprise to me that in the context of a debate of this nature, we are only going to be hearing about the Credit Union Movement, when you are really not speaking to the legislation but you are speaking to an exemption from the legislation.

It really says something about the commitment to policy on these matters, that in the context of examining a piece of legislation, which is going to speak to the promotion of how you introduce the system, how you subscribe capital, how you are going to match members' initial contributions, et cetera...The whole structure of governance is addressed in the legislation.

There is not a debate on the substantive aspect of the legislation but you are going to have a debate on that element of the community, which is exempted, in a context which does not acknowledge the fact that even though it is exempted, there are ongoing discussions with that particular element, as to how best they might be covered, under another piece of legislation.

As I said, Mr. Speaker, there is really little reason for us not to wholeheartedly embrace and support this matter. I give it my fullest support.

Mr. SPEAKER: The Honourable Member for St. Michael West Central.

Mr. R.D. MARSHALL: Thank you very much, Mr. Speaker. I join this debate in support of the legislation brought here by the Honourable Member for St. Michael North West. I have been of concern sometime ago about what has been happening in the financial institutions not only in Barbados but in the whole world.

Sir, if one would look at just what recently happened in the Enron situation, where two prominent members of the bank were brought before the courts, and both were convicted. One was just sentenced to some 24 years in prison, the other one died in March of this year.

This tells us about these dealing that they can also happen in Barbados. Sir, if one were to look back in the past some few years ago with the Trade Confirmers fiasco. I believe it was with a Trinidadian company, situated in Cockspur House and there were many persons, one a school teacher, who had retired and put all her money into Trade Confirmers, and she lost every penny. There were many other persons who would have lost large amounts of money in the fiasco. We must bear in mind, Sir, that these things could happen. I am glad, Sir, that the legislation is here.

Mr. Speaker, they say that the legislation is here and what is covered here would be the commercial banks. It does not include the Credit Unions and the Insurance Companies. It must include all those institutions that are taking deposits, such as Consolidated Finance, and Globe Finance but I believe that we still have to look at other

institutions that take in deposits. For instances, insurance companies take in some deposits. In addition to the traditional life insurance premium, people make lump sum payments into insurance companies and I believe that we cannot disconnect this from the insurance companies.

I believe, Sir, that although the presenter this morning mentioned that the Credit Unions would not be covered under this legislation, but the Credit Unions take in large sums of money on a daily basis from many persons, whom we call poor people.

House 113, Sequence 24, 15:00:14

Tuesday, October 24, 2006

Mr. R. D. MARSHALL: Therefore, I believe that these credit unions should have some kind of regulation in order to protect these poor people who deposit these large sums of money into them. Sir, we might be talking about small deposits on a weekly or monthly basis, but so many people are putting money into the credit unions that we should look at regulating the credit unions and making sure that their deposits to the credit unions are protected.

Mr. Speaker, when one insures anything, one is insuring against a particular happening or event. When one buys a life insurance policy, one insures onself in the event of death. Sir, if death does not occur and the person lives out the time of the policy, he or she, once it is a cash value policy, will receive the cash arrangement value of the policy, which will be the cash value plus any dividends that would have accrued on that policy.

Sir, there are new plans on the horizon now that would not be paying dividends, but the end of the day there would be some happenings. With general insurance, it is the same thing. Sir, if you insure a car, property, a building, stock, or cargo, you are insured against loss or damage to that property, cargo et cetera, so you are going to be compensated. Sir, this is the same thing we are here looking at today as it relates to insuring the deposits of persons at the commercial banks and the other institutions that take in deposits.

Mr. Speaker, we have to be guarded against these things. The presenter said this morning that 95 per cent of the deposits would be insured, because 95 per cent of these accounts are $25 000 or less, so hence this is more or less poor people money. Sir, after speaking to the presenter, I found out that if one has $100 000 in a bank, and one would try to trick the system by putting it into $25 000 accounts that it would just be $25 000 that would be protected and not a series of $25 000 to the same person.

Sir, I am in agreement that we should be looking at insuring these amounts. Sir, the commercial banks or the institutions that take in the lump sum payments are the ones that would be responsible for paying this .05 per cent premium and the Central Bank of Barbados would match that with a further .05 per cent, hence the full amount would be borne by the bank and the insurance company. That money would then be paid into the new company, which would be responsible for investing the funds and getting a return out of this money.

Mr. Speaker, I should also add that there are organisations in Barbados that sell mutual funds and take in lump sum payments from persons. A person might put $10 000, $15 000 or $20 000 into a mutual fund for 10 or 15 years and these persons should also be protected from the unforeseen things that are happening.

Sir, we could also encourage people to put money into insurance companies because in the past insurance companies were the only ones in Barbados who were selling things like registered retirement saving plans and other vehicles for retirement. Sir, this is a good opportunity for me to say to the people of Barbados that beside putting money into the commercial banks they should look at putting some money into a registered retirement savings plan.

Sir, these retirement savings plans are not only sold by insurance companies, some commercial banks are also selling them. In addition, they are private registered retirement pension plans. The people who work in Government have the Government pension plan. Sir, there is also an avenue where persons, who are in the Government pension plan, could put money into a registered retirement savings plan or a private pension plan in order to enhance their pension.

Mr. Speaker, two things could result from such a plan. One is that the premiums into the pension plan can be used for income tax deduction purposes and the other thing is that you have a guaranteed amount of money coming out there for your savings years.

Sir, with those few remarks, I do support the Bill.

Mr. R. L. SEALY: Mr. Speaker, I rise to make my contribution to this debate which would see the establishment of the statutory body dealing with the issue of deposit insurance.

Sir, notwithstanding the contribution before the last one, which brought us back on track, I think that we have had a very good debate, which was free of the usual partisan rancour in spite of the season and in spite of some valiant efforts by others. I think that members on both sides of this House recognise the importance of our financial institutions to be developed and to have a proper regulatory framework and to recognise that that regulatory framework

of necessity has to be developed and has to go through various changes.

Indeed, if there is any complaint that anyone can lodge about what we are doing in here today, it is probably that it did not happen sooner. Having said that, we have already said on this side that we support the effort at having deposit insurance.

Mr. Speaker, I think that the points that were made from this side, particularly those from the Honourable Member for St. Philip West in his response to the mover of the Bills, that we need to have a broader look at what is happening with our institutions that take deposits is a very sound point.

Indeed, I would hope that in spite of the establishment of deposit insurance which would suggest that we are moving towards the conservative end with respect to protecting persons who make deposits into various saving instruments in our financial intermediaries, that the Government of Barbados, both the Government of today and the future Governments, would still see it possible that we could have an entire array of investment instruments with varying degrees of risk.

House 113 Sequence 25

3.10 p.m.

Tuesday, October 24, 2006

Mr. R. L. SEALY: Mr. Speaker, to some extent, establishing deposit insurance is obviously going to reduce the risk component but the reality is, we talked about developing a capital market, about junior achievers moving onto the Youth Entrepreneurialship Scheme, we talk about developing a culture of entrepreneurship and about developing a group of Barbadians, who are prepared to take risk, but we must be prepared to understand there are going to be those persons, who would be prepared to take a greater degree of risk with respect to their savings and to their investment options.

Mr. Speaker, I would want us to recognise that fact when we create this regulatory framework, when we look at our financial sector and our options, with respect to what we do to our savings, our investment planning for our future.

Mr. Speaker, quite naturally, a 20-year old, who does not have a family, may be prepared to take greater risk than someone who is their later years and who may have a family, and you must recognise that fact. Sir, in the same way that the Credit Union Movement has developed from the Friendly Society, maybe we can see the day coming where the so-called ‘sue-sue’ or ‘meeting turn’ could give way to investment clubs and these things could be duly recognised by the State, and that the appropriate regulatory framework could be found for such, so that we could see opportunities for young Barbadians to invest, that go beyond what might be directly applicable under this Act and that is, of course, banks and similar deposit-taking institutions.

Mr. Speaker, I recognise we have come a long way because if this debate were taking place 20 years ago, we would have been speaking about commercial banks and that kind of thing.

Asides.

MR. SPEAKER: Please, Honourable Members, order.

Mr. R. L. SEALY: Mr. Speaker, today we have other institutions that are taking deposits. We have a group out of Trinidad and Tobago, the Money Market Brokers and others institutions, and it is good to see that the legislation is going to cover those number of institutions. I would only say that when we are talking about developing a capital market, that we recognise it does not mean large transnationals at a stock exchange. It could mean capital markets at the micro level, and I do believe that the Government can and should do a lot more in that regard.

Mr. Speaker, heavy weather is made of the Central Bank’s capacity to use suasion, with respect to the banking sector, to influence their policies. Maybe that suasion needs to be used a little more to encourage the banking sector to get involved in productive activities. It has been said in this Honourable Chamber over and over, from both sides, that as we look as this issue of deposit insurance and as I said at the beginning, the temptation to suggest that because there is unanimity in this Parliament on the need for deposit insurance, does that automatically mean that we are suggesting the conservative way is the way to go. I do not think so and I will urge this Government and all those within earshot who may be part of future Governments because, as I said, it is an ongoing process, in dealing with something like this. Both Parties can take credit for bringing us to this point and indeed it is fitting that we can have such a high level of debate on something so important to this nation.

Mr. Speaker, once again I would suggest to the Honourable Member for St. James Central and others, that the enthusiasm and energy that he has, in trying to insert, unnecessarily, partisanship into this debate, that perhaps the Honourable Member could take that energy and enthusiasm to the Ministry of Commerce, so that we could have a similar debate about the Credit Union Movement.

Mr. Speaker, the Honourable Member for St. Philip West was very clear. He did not want to anticipate the House, neither do I, but that does not negate the importance to have that legislation brought to this Honourable Chamber, so that we could do for the cooperative movement precisely what we are doing for the banking sector, that is improving the environment for the average member, so that the sector can see some appropriate development.

Mr. Speaker, I do believe that we are moving in the right direction. We could say that we have taken a bit longer than other jurisdictions, as other jurisdictions have gone through this exercise a few years earlier. We are still awaiting to see what would happen with the question of cooperatives and other societies. I will hold my views on that sector until we get to that debate.

Mr. Speaker, before taking my seat I will make an observation about one of the pieces of legislation before us; the one that is titled the International Financial Services Act and this question of charging licences under this Act for examinations conducted by the Central Bank, as well as for banking supervision services.

Asides.

Mr. R. L. SEALY: Mr. Speaker, I will laud the efforts of moving towards International Financial Services best practices. I sincerely hope that the comments I have made with respect to the need to look at the overall picture, as far as our financial services are concerned and that we can see that this sector continues to develop and to grow from strength to strength.

Mr. Speaker, with those few remarks, I am obliged to you.

Hon. A. P. WOOD: Mr. Speaker, I rise to lend my support to this Bill, which is before this Honourable Chamber.

Mr. Speaker, like the Honourable Member who has just spoken, it is really refreshing that we can engage on a debate of such a serious matter, without introducing the high partisan element in the debate. I think we all recognise that item before this Honourable Chamber today is a sufficiently serious one, at this critical juncture in the development of our financial system, that it lends itself to a debate of this type and one that is free of the rancour to which we are accustomed in this Honourable Chamber and outside.

Mr. Speaker, the Honourable Members, who have made contributions, have touched on a number of important issues and, therefore, I would like to continue developing some of those points and introducing a few of my own. Mr. Speaker, let me start by congratulating the Honourable Member for St. Michael North West for the manner in which he introduced the Barbados Deposit Insurance Act, 2006. I think he was extremely comprehensive in his presentation and this side certainly has benefited from the depth and the manner in which he has presented it this morning.

Mr. Speaker, there is no doubt that there is an inextricable link between the financial system in any country and the real side of the economy. If you were to look at economies that are extremely prosperous, in terms of their macroeconomic performance, you would appreciate that driving the real sector development would be a strong financial system, one that, over the years, would have developed in fairly significant ways, in terms of the size of the assets in financial system and also in terms of arrear of instruments available for investments and savings.

Mr. Speaker, if we were to look at our small financial system and to try to trace its development over the years, we would see that Barbados' financial system, in terms of the plotting of its development, mirrors, to some extent, more developed financial systems.

3.20 p.m.

Tuesday, October 24, 2006

(EDITED)

Hon. A.P. WOOD: If you trace it, you would see that there are banks, mainly in the beginning, which are largely branches of transnational and international companies, which have headquarters elsewhere.

Mr. Speaker, we saw the introduction of non-banking financial institutions, a whole set of insurance companies and we saw the growth in the credit unions so we now have a reasonable mix of institutions and instruments. Sir, this does not mean that there is not further work to be done with regard to developing the system.

Mr. Speaker, I am using this approach because the particular piece of legislation that is before the House is one which seeks to give protection to those who want to release some of their funds to the financial system. Mr. Speaker, the Honourable Member who spoke last, made contact with an interesting point but he did not develop the point. It has to do with moving into seeking to protect the savings that are accumulated into the financial system through providing this safety measure, the deposit insurance. Once we have done that, how are these savings going to be utilised and for what purposes?

Mr. Speaker, I spoke at the beginning about this inextricable link between real and financial sector development and greater attention would have to be paid to the utilisation of these accumulated savings in the financial system, what we call the transformation process, that is, the rate and manner at which we take financial savings and transform them into real sector activity. The speaker previously spoke about investment instruments, a wider rate of opportunity for which persons should be able to make their investment and, Sir, I agree with him on that point.

Mr. Speaker, the Barbados financial system has remained a fairly strong and healthy one over the years. Earlier, the Honourable Member for St. James North reminded us of the problems that the financial system had to confront in the early 1980s, like the Trade Confirmers issue and the Bank for Credit and Commerce Intl (BCCI) issue. Sir, back then, there might have been cause for the establishment of a Deposit Insurance Scheme because it became clear to all existing and potential investors and to holders of savings in the financial system in Barbados, that there might have been a need for greater security attached to those holdings in the financial system.

Mr. Speaker, it is great credit to the Barbados' financial system that the event, which took place in the early 1980s did not immediately thereafter, result in the establishment of a Deposit Insurance Scheme. It is to the credit to the good work of the Central Bank of Barbados and the manner in which they have gone about putting systems in place to effect proper regulations of the financial system that we were able to move from that point in the early 80s through to this period in 2006 and that we are now putting in place a Deposit Insurance Scheme. Sir, there was great anxiety created in the early 80s when those instances occurred in the system.

Mr. Speaker, we know, as the Honourable Member for St. Michael North West said, that a person could easily come to the realisation that a financial system is as strong as the weakest institution. We know that if there are problems with one or more financial institution in an entire system, that panic could set in, that there could be a run on the financial system, that "all hell would break loose" not only in regard to the financial system but because of this inextricable link between the financial system and the real side of the economy, it would have serious implications for development in the real sector of any economy.

Mr. Speaker, we have had a fairly strong financial system, we have benefited over the years from the professionalism that has existed within the Central Bank of Barbados and we have seen how the various departments in the bank have developed. We have seen a significant strengthening of the regulatory capacity within the Central Bank of Barbados over the years so as to ensure that there is effective regulations and effective regulatory framework put in place to manage the financial system in Barbados.

Mr. Speaker, that is not to say that we should not have come to this moment a few years earlier. Sir, persons have spoken to that. Sir, we could look at the asset growth and the deposit growth within the financial system in general. I am not talking about within the banking system only because you would have seen how insurance companies in this country have grown over the year and also how the credit unions in this country have grown over the years and one might want to argue, as the discussions were leading back in 2002, for the need for us to establish a fully functional deposit scheme.

Mr. Speaker, the strength of the financial system in Barbados over the years, reflects the macroeconomic environment. I have said earlier that it also reflects the effectiveness of the regulatory environment and the quality of the governance within the financial institutions. It is not only that the Central Bank of Barbados had in place monetary and evaluation systems and proper credentials norms, et cetera, to ensure that there were good practices on the part of managers of the various financial institutions that are covered by the Financial Institutions Act but within the institutions themselves because a lot of the banks in Barbados have mainly branches of banks which have headquarters elsewhere. These are banks with large international reputations and one would appreciate that the standards set elsewhere would have implications for the good governance systems within the institutions here in Barbados.

Mr. Speaker, we have had a healthy system in the absence of deposit insurance, so one would appreciate now that the system would not only continue to grow but would maintain proper health as we go forward.

Mr. Speaker, this query would have been answered previously. Why is there a need for us to introduce a Deposit Insurance Scheme in a system that has worked largely well previously? Mr. Speaker, I have said earlier that we are not supposed to rest on our laurels, that things have gone extremely well, that we have been able to maintain confidence in our system in the aftermath of those events in the early 1980s and that we want to give more confidence in the financial system. Sir, this Deposit Insurance Scheme would certainly allow for that, at a time when Barbados should be seeking to have its financial system developed so as to become the hub of financial services in the Caribbean and at a time when we should be looking to attract more investments into our financial system. We certainly would have to put additional measures and systems in place so as to build greater levels of confidence not only among those who are within the system but among those who would want to join the system and do business here with us.

Mr. Speaker, the Honourable Member for St. James Central made contact with how fluid funds are within the region and what Barbados should be seeking to do to attract more of these funds. Sir, attracting more of these funds will not happen overnight nor unless you make your offerings in the system attractive.

H113/15:30

Sequence 27

Tuesday, October 24, 2006

Hon. A.P. WOOD: and would not happen unless you make your offerings in the system attractive. Sir, as we seek to further integrate this Caribbean region, we could move this link between financial development in the domestic economy, or real sector development, to financial development in the regional context, fueling real sector development in a regional context as well, but greater attention would obviously have to be paid to the integration of capital and financial markets in the region.

Mr. Speaker, I know that some work is being done by policy makers and researchers, located at strategic institutions in the region, including the Caribbean Development Bank and the University of the West Indies. In the context of the discussions of moving forward the Caribbean Single Market and Economy, greater attention will have to be paid to arriving at a consistent set of measures, which would allow for greater integration of our financial and capital markets in the region. Mr. Speaker, as you seek to do that, more funds are likely to flow into Barbados, and this is one of the other reasons we have to ensure that the financial system has the props which would allow for more confidence building in our financial system.

Sir, maintaining a healthy financial system is, indeed, extremely important in an era where there is always the temptation for those who are able to accumulate great financial wealth, not always through proper and legal means, but who move these funds across jurisdictions. We have a fancy term for it called money laundering.

A financial system that has the correct checks and balances built into it, a financial system that is managed in the way, the Barbados' financial system is managed by the Central Bank of Barbados, is one that is more likely to spot instances of the movement of funds that were gained through illegal means.

Sir, this business of a healthy financial system with a proper regulatory environment is extremely important at a time when finance could move across the border at the press of a button, and large sums as well. It is not only sums that were gained through legal means, but funds that were gained through illegal means.

Mr. Speaker, this is another reason we should support what is before us, and support it in the context of us trying to strengthen the capacity of the system, to allow persons to invest more into our financial system, with the knowledge that notwithstanding what the Central Bank is able to do, there is this added security for those who want to invest in the system.

Mr. Speaker, as I said earlier, this is a piece of legislation, before this Honourable Chamber, which is a welcomed added feature to our financial system. As the debate has gone so far, it has enjoyed support on both sides of the House, and it is that type of move we are making as a serious Government, that deserves full support in this Honourable Chamber.

Mr. Speaker, with those few words, I am obliged to you.

Mr. SPEAKER: The Honourable Member for St. Michael North west will now wind up.

Hon. C.A. MASCOLL: Mr. Speaker, I rise to respond in a large measure to some of the issues raised. There are some that I can dismiss in one sentence, but I will address the more substantive matter, that has been raised from the other side, and it has to do with the credit unions. Perhaps, we need to understand how the credit unions function before we become so sentimental about some things.

The first thing is, as at June 2006, the credit unions of Barbados held in shares and deposits, $782 million. Sir, what is most important is that of that $782 million, and I am awaiting the actual figure, approximately $160 million is deposits. That, therefore, needs to be analysed and assessed, before we can begin to make the comments that we have been making. Unless you understand that a person who goes to a credit union, can actually put shares and deposits at the credit union, therefore, you cannot make any determination about the real underpinning importance of the credit union to the financial system, with respect to this particular piece of legislation. Therefore, let me, as best I can, seek to explain whatever I can on this debate.

In short, the first thing we would need to do, is to determine what is the creature called the credit union, and that creature's importance to the financial system. If you seek to regulate the credit unions, as you do the commercial banks, you must make a determination about what is a share and what is a deposit, because a share is supposed to give all members joining the credit union, ownership of the credit union, in which case they are entitled to a dividend at the end of the year, in accordance with their shares. You earn interest on your deposits as well. A credit union member, who has both shares and deposits is entitled to a dividend at the end of the year,

which is 1 percentage point above the savings rate at the Central Bank of Barbados, once the credit union has made a profit. That is what it is.

Mr. Speaker, the thing to note is, that in terms of the loans, at the credit union, you are given a loan in accordance with what type of loan you are seeking, and the amount of the loan you can get, is determined by the amount of the shares you have, multiplied by whatever ratio is determined by the wider body at the annual meeting. So, if you want to buy land, it may be a ratio of 10 to 1, or your existing shares may be increased by 10 in order to limit you to that amount.

Mr. Speaker, therefore, if you were to look at the Central Bank's Annual Report for last year, at Page 11, you would notice a very strange thing happening on this page. That is, at the bottom of the page you have domestic deposits at financial institutions, you have trust companies, as at 2005, $495 million; commercial banks, domestic deposits, $5.7 billion; and strangely enough, credit unions, domestic deposits, only $148 million. However, on the same page, the credit that the credit unions has extended is $691 million, which is almost five times the amount of the deposits at the credit unions.

In short, the deposits at the credit union bear no relationship, at all, to the loans extended by the credit union, because access to a loan - I am now being given the correct figure, it is higher than I thought - from the credit union, is not determined by your deposits but determined by the amount of shares held at the credit union.

15.40 p.m.

Sequence 28

Tuesday, October 24, 2006

House 113, Sequence 29, 3.40 p.m.

Mr. C.A. MASCOLL: This is the kind of analysis that is required to make sensible policy. Therefore, failure to intellectualise politics, will result in a misunderstanding of the issues in relation to either the fiscal side or the financial side.

Mr. Speaker, the departure of the Honourable Member for St. John is understandable at this point in time, because this is a different level of politics in which we are seeking to educate, highlight and tell the people of Barbados precisely what is required, to take this country, from where it is now to a more prosperous society and economy. It requires vision, it requires a strategic plan, and it requires an understanding of what is, to understand what ought to be, so his departure therefore does not surprise me.

Mr. Speaker, if we are to come back to the more substantive issue here, the question has to be, if there is any merit in the suggestion that we need to find a system that could offer some degree of security as well, to the credit union depositors. Of course, there will be, but I am saying that the credit unions must be willing to undergo change, in order to be able to become part of this process.

The change that is necessary will deny the credit union its particular character, where you do not need to have a godfather, where you do not have be sent to a commercial bank by someone in order to get a loan, or where it does not matter where your social location is, but once you have an input or a share at a credit union, you are entitled to a loan, full stop. It is a most wonderful institution and it is an institution that, I hope, would not lose its character.

Sir, if it means that the credit unions have to be transformed, in order to become characterised like a commercial bank for the purpose of an insurance deposit, I am not so sure that I would wish to see the credit unions being fully regulated, in the same way that we regulate commercial banks.

I am not sure but I am not God and, therefore, my opinion is not sacrosanct. I know for sure that if I am asked to really consider whether or not a credit union ought to be treated like a commercial bank, given its indigenous nature, given the fact that the Board of a credit union is not determined by your location in the society, or whether you sit on other Boards, or whether you are part of a process that 'limes' on the East Coast Road or at Bathsheba, or whether you have had managerial skills that were innate - that you were born with, that you did not acquire. I am not so sure that I want to have the credit union located in that kind of position, where any and everybody can come and deposit and become a shareholder and, by extension, deposit holder, and it can be of a magnitude that denies the average small Barbadian from being part of a managerial process, I have my difficulties with it. But I understand the need to offer the depositors some degree of protection.

Sir, you have to understand credit unions. Credit unions are not commercial banks. Credit unions put an awful lot of their funds at commercial banks, so that the Public Workers' Credit Union has a deposit with the Barbados National Bank, and there will be some degree of security. But that is a philosophical thing, that is something that requires an input, and that is something that requires a principle.

Asides.

Mr. C.A. MASCOLL: Yes. But do you want them to become commercial banks? Do you want them to be able to offer cheques? Do you want a credit union to have to go

through the strictures of paying a tax on its assets? Do you want a credit union to have now to seek a premium on its deposits, in order to have insurance? I am saying there is a need for a special creature to take care of the special circumstances surrounding a credit union. Sir, let us not be trapped, because it is appealing. The credit union has a membership in excess of one hundred thousand people.

Therefore, in a debate like this, and you suggest that the Government is now embarking on a process of guaranteeing 95 per cent of the depositors in commercial banking systems and deposit institutions, guaranteeing them of $25 000 limit, but you are not doing it for the credit union depositors, it is to offer you political space, which I can appreciate and understand. You are seeking to grab that very large cadre of young people, old people, ordinary people who understand what it is to be a credit unionist. I think it is the greatest institution there is in this country, and I will be cautious in my attempt to alter its character.

Sir, let me move on because I am going to provide the cloud that the Honourable Member for St. Lucy fails to see behind. When BNB was fully owned by Government, all of its deposits were insured. In fact, because BNB was a Government-owned commercial bank, its depositors had a guarantee that the other commercial banks did not have. Now, you have a situation in which 95 per cent of all depositors in the banking system are guaranteed up to $25 000 in coverage. In fact, if there is a failed institution, then the law will determine who gets beyond the uninsured part of the deposit. The priority of claims will determine, the legal luminaries will decide, and they will make the determination about who can be liquidated, and who is in receivership.

Mr. Speaker, on the question of the returning nationals, my friend from St. Lucy is able to see matters that the ordinary fellow does not see. Therefore, when he makes reference to returning nationals bringing in foreign exchange and the need to secure their deposits as well, there is one slight thing missing. You cannot set up a deposit insurance scheme that is local, to cover a foreign currency liability. Therefore, it is the reason foreign currency deposits are excluded from the base of the deposit that will be charged a premium.

A local company operating in this jurisdiction with local currency cannot cover a foreign currency liability. Therefore, I understand the Honourable Member for St. Lucy's mood, in that he is speaking to the issue of valuing - we call it shadow pricing - for a foreign dollar. If a returning national brings pounds to Barbados every month, which can be converted to domestic dollars, then that returning national is actually strengthening our foreign reserve position. The thing is, in order for him to live here, he has to convert it to a domestic account, in local currency. Therefore, he is now entitled to the same degree of coverage, as all of the other depositors in the system.

Sir, if he wants to suggest that he needs to be treated differently because he is earning foreign exchange for us, but through remittances, then that is a completely different matter all together.

My other friend from St. Philip West was quick to identify the limit of $25 000, as too small. Now, you have to start somewhere and the higher you make the limit, the greater is the premium. The greater the premium, the greater the burden is on the deposit-taking institutions.

I want to draw this information into this debate. In the United States of America (US), the limit is US$100 000, which is BDS$200 000. We have a limit of $25 000. Therefore, the US limit is eight times the amount in Barbados. But the US economy is $24 trillion, which is four thousand times the size of the Barbados economy - the United States of America's economy is four thousand times the size of the Barbados economy.

Mr. Speaker, if Barbados could offer an insurance limit of $25 000, compared to the US economy that is $24 trillion per year, and has a limit of only eight times the amount, Barbados has made a good start. In fact, this little country, and I continue to see it when I get the opportunity to travel, is very highly revered.

House 113, Sequence 29, 15:50:14

Tuesday, October 24, 2006

Hon. C. A. MASCOLL: Sir, it is like a lightweight boxer fighting in a heavyweight class. Barbados has the capacity, as a small country, to fight against middle and heavyweight boxers and it is fighting extremely well, it is remarkable. Therefore, you have to see it for what is worth. It is a very significant start.

The other major factor in this, Mr. Speaker, is that in allowing commercial banks to now pay a premium to establish a Deposit Insurance Corporation, which the Central Bank of Barbados will match in terms of funding, and also establish or subscribe some degree of capital up front, you are now removing the potential of the Government to have money in the Consolidated Fund and from passing it on eventually to the people of Barbados in the form of...

Mr. D. St.E. KELLMAN: On a point of order. The Honourable Member is misleading the House. The Honourable Member knows that when these three pieces of legislation are passed that the advantage that the credit unions had previously, they will not have anymore. Previously, the banks and the credit unions would have

been on the same basis but when this legislation is passed everybody who has $25 000 deposited with the banks will have a guarantee but those persons who have $25 000 with the credit unions will not now have a guarantee. This legislation will give the banks the advantage. That was the rat I was looking for.

Asides.

Hon. C. A. MASCOLL: Mr. Speaker, just being a member of the credit union itself is an advantage because there is no guarantee that if you have $10 000 in a commercial bank that you are entitled to a loan, that is the first thing. There is also no guarantee that depending on the nature of the loan, that you can get $50 000 in guaranteed loans, because of the nature of it.

Mr. Speaker, that is why I am saying that if we look at the Annual Report for last year of the Central Bank of Barbados, you would see, on page 11, that the actual loans distributed by the credit unions are almost five times the amount of the deposits. Sir, there is a difference between a deposit and a share for purposes of the credit union. Sir, that is why the credit unions would be cautious in coming under a regulatory process that starts to question what is a share and what is a deposit. Sir, I therefore am cautioning the credit unions that inasmuch as what they heard in this Chamber today that they have to be careful not to want to have prudential regulations of the type on the commercial banking system because they may stand to lose in terms of what can be defined as a deposit.

Mr. Speaker, if they start to define a share differently which could very well happen because there is really no reason in accounts why a contribution I make to a credit union could be classified as a share as opposed to a deposit. It is really a definition that permitted ownership of the institution called a credit union and rightly so.

Sir, that is what I love about the credit unions. I have the opportunity to get dividends and have ownership of a credit union. It is a remarkable thing for small people to have. Sir, I would hate to see its character change.

Sir, I will ignore some of the comments made or the feeble attempts made by the Honourable Member for St. John in this debate. Sir, this debate requires much more. First of all, you have to do research, then you have to do analysis, then you have to search the region to find out who has done it and then you have to understand the principles upon which you would build a deposit insurance scheme, what are the principles and what would drive the principles. This is not the case where a principal is the principle. This is not thast. This is a question of really coming to terms with: Do you have a philosophical base upon which you intend to build some institution or organisation and do you then proceed to put the right principles in place to do it?

Mr. Speaker, I am really pleased to have made my first real presentation of a Bill in this Chamber and for it to be of a character that can completely influence the safety and the security of small depositors in a financial system that has not yet been tested because we have a financial system that over the years have been run and regulated extremely well.

Mr. Speaker, the beauty of life is how you deal with a crisis. If you could deal with a crisis and make it look as though it was just water on a duck's back, you have demonstrated success. That is the important thing about it. It is how you deal with a crisis. It is what our cricketers fail to do, they do not know how to deal with a crisis. They only bat well when the going is good but if things get a little rough they all succumb to the pressure.

Mr. Speaker, this piece of legislation is remarkable in attempting to provide that safety. This piece of legislation is founded on two principles, moral hazard, which has to do with you not wanting to do something for yourself, which may be advantageous but may be to the detriment of the whole. The second principle is the whole question of adverse selection, which is that you do not introduce a system that selects on the basis of who is better able to do and feeling that those who are better able to do, the bigger players, can in fact ride or believe that the weaker players are riding on the backs of the bigger players. Sir, adverse selection is very critical in this process of establishing a deposit insurance scheme.

Mr. Speaker, those are issues that would have to be dealt with elsewhere in whatever capacity they want to deal with it because they seem to me to be very relevant to institutions outside of the Corporation established to deal with deposit insurance. Sir, that perhaps you need to start applying these kinds of principles to other types of institutions to ensure their safety and security.

Mr. Speaker, I thought I did a pretty comprehensive job in my first speech and therefore all I needed to do was to respond to some of the issues that were raised. Therefore, I end by asking that this Bill be read a second time.

Hon. R. R. FARLEY: I beg to second that, Sir. On the motion of Hon. C. A. MASCOLL, seconded by Hon. R. R. FARLEY, the House resolved itself into Committee, Mr. R. D. MARSHALL in the Chair.

COMMITTEE

Mr. CHAIRMAN: This House is in Committee.

House 113 Sequence 30

4.00 p.m.

Tuesday, October 24, 2006

Clauses 1 - 2, were called and passed.

Part 1, Clauses 3 - 16, inclusive, were called and passed.

Part 2, Clauses 17 - 29, inclusive, were called and passed.

Part 111, Clause 30, was called and passed.

Part 1V, Clauses 31 - 37, inclusive, were called and passed.

Part V, Clauses 38 - 42, inclusive, were called and

passed.

Part V1, Clauses 43 - 52, inclusive, were called and passed.

The Schedule became the Schedule to the Bill.

On the motion of Hon. C. A. MASCOLL, seconded by Hon. R. R. FARLEY, Mr. CHAIRMAN reported to His Honour the SPEAKER, the passing of one Bill in Committee, and Mr. SPEAKER resumed the Chair and reported accordingly.

On the separate motions of the Hon. C. A. MASCOLL, seconded by Hon. R. R. FARLEY, the Bill was read a third time and passed and cited as Barbados Deposit Insurance Act, 2006.

ORDER NO. 16 – INTERNATIONAL FINANCIAL SERVICES (AMENDMENT) BILL, 2006.

MR. SPEAKER: The Honourable Member for St. Michael North West.

Hon. C. A. MASCOLL: Mr. Speaker, I beg that this Bill be read a second time.

Hon. R. R. FARLEY: I beg to second that, Sir.

The question was put and resolved in the affirmative without division.

On the motion of Hon. C. A. MASCOLL, seconded by Hon. R. R. FARLEY, the House resolved itself into Committee. Mr. R. D. MARSHALL, Chairman of Committees, in the Chair.

COMMITTEE OF SUPPLY

Mr. CHAIRMAN: This House is now in Committee.

Clauses 1 - 19, inclusive, were called and passed.

On the motion of Hon. C. A. MASCOLL, seconded by Hon. R. R. FARLEY, Mr. CHAIRMAN reported to His Honour the SPEAKER, the passing of one Bill in Committee, and Mr. SPEAKER resumed the Chair and reported accordingly.

On the separate motions of Hon. C. A. MASCOLL, seconded by Hon. R. R. FARLEY, the Bill was read a third time and passed and cited as the International Financial Services (Amendment) Act, 2006.

4.10 p.m.

(EDITED)

Tuesday, October 24, 2006

ORDER NO. 18 – CENTRAL BANK (AMENDMENT) BILL, 2006

On the motion of Mr. C.A. MASCOLL, seconded Hon. R. R. FARLEY, the House resolved itself into Committee, Mr. R. D. Marshall in the Chair.

COMMITTEE

Mr. R.D. MARSHALL: This House is in Committee.

Clauses 1 - 5 inclusive were called and passed.

On the motion of Mr. C.A. MASCOLL, seconded by Hon. R.C. EASTMOND, Mr. Chairman reported to His Honour, the SPEAKER, the passing of one Bill in Committee without amendment and Mr. SPEAKER resumed the Chair and reported accordingly.

On the separate motions of Mr. C.A. MASCOLL, seconded by Hon. R. R. FARLEY, the Bill was read a third time, passed and cited as the Central Bank (Amendment) Act, 2006.

ORAL REPLIES TO QUESTIONS

Hon. R.C. EASTMOND: Mr. Speaker, I beg to move that Oral Reply to Questions be taken.

Mr. SPEAKER: If this is the Will of the House, then so be it.

QUESTION AND ANSWERS

Question No. 14

DR. W.F. DUGID: To ask the Minister of Housing, Lands and the Environment:

1. Will the Minister state: (a) whether his Ministry has any plans to build any more rental housing units in the Bonnetts and St. Matthias areas? (b) whether his Ministry has any plans to build any more rental housing units in the Deacons, St. Michael area?

Mr. SPEAKER: The Honourable Minister of Housing, please.

Hon. R. R. FARLEY: Mr. Speaker, the answer is as follows:

Bonnetts consists of some 108 units, the block of which was completed in 2001. Sir, St. Matthais has 70 units. The National Housing Corporation has no plans to build any more units in the Bonnetts or St. Matthias area. To build additional units at Bonnetts and St. Matthais would require acquisition of new lands. Sir, no land is available in these areas for additional units.

Mr. Speaker, with respect to the other part of the question. An area of land was identified between Deacons Farm and the Rosemont Housing Development and consideration is being given to developing this land for rental accommodation. It is subject to the planning permission of the Chief Town Planner. However, the area has been earmarked for the construction of some 16 to 18 terrace units.

DR. W.F. DUGID: I thank the Minister for his response. The Minister would also be aware that there is a significant track of land in Bonnetts and seeing that it is not available for housing, would he then consider that it could be available for a day care facility in the Bonnetts area?

Mr. SPEAKER: I would allow the question.

Hon. R. R. FARLEY: Mr. Speaker, the Ministry of Housing and Lands is happy to consider any use for the land. We would, however, await the advice of the Ministry responsible for day care centre. Sir, at the request of the Ministry of Social Transformation, the Ministry of Housing and Lands will undertake any facilitation required, if it is the lands of the Crown, to make that dream and desire possible on behalf of the good people of Christ Church West.

Hon. R.C. EASTMOND: I beg to move that Question Time be closed.

Mr. SPEAKER: If that be the wish of the House, so be it.

ADJOURNMENT

Hon. R.C. EASTMOND: Mr. Deputy Speaker, this brings us to the end of Government Business for today. I beg to move that this House be adjourned until Tuesday, October 31, 2006, at 10.00 a.m.

Hon. R. R. FARLEY: I beg to second that.

The question that the House be adjourned until Tuesday, October 31, 2005 at 10.00 a.m. was put and resolved in the affirmative without division and Mr. SPEAKER adjourned the House accordingly.

CONTENTS

MINUTES

Hon. R.C. EASTMOND.....1

Hon. R. R. Farley, 1.

PAPERS

Hon. R.C. EASTMOND.....1

1. Value Added Tax (Refund) (Coral Isle Rentals) Order, 2006.

2. The Special Development Area (Barbados Investment (Properties) Inc.) Notice 2006.

1. The Annual Report of the Fair Trading Commission for the year ending March 31, 2006.

1. The Annual Report and Financial Statement of the Caves of Barbados Limited for the year 2003.

1. Audited Financial Statements and Annual Reports on the Activities of the Board of Management for the period 1998 - 2004 for the following:

2. Annual Report of the Activities of the Board of Management of the Combermere School for the period 2003-2004.

Hon. A.P. Wood, 2.

ORAL REPLIES TO QUESTIONS

Hon. R. R. FARLEY.....2

SUSPENSION OF STANDING ORDERS

Hon. R.C. EASTMOND.....2

Hon. R. R. Farley, 2.

GOVERNMENT BUSINESS

ORDER NO. 15 – SECOND READING OF THE DEPOSIT INSURANCE FUND BILL, 2006.....2

Mr. C.A. Mascoll, 2, 3, 5, 6.

(EDITED)

Mr. C.A. MASCOLL.....7

Dr. D. C. Estwick, 11, 12, 13.

(EDITED)

Dr. D. C. ESTWICK.....14

Hon. R.C. Eastmond, 14, 15, 16; Mr. D. St.E. Kellman, 17, 18, 19, 20.

(EDITED)

RESUMPTION

ORDER NO. 15 (resumed)

Hon. R. R. Farley, 21, 22, 23, 24; Mr. D. J. H. Thompson, 24, 25.

(EDITED)

Hon. K.D. SYMMONDS.....26

Mr. D. J. H. Thompson, 29; Mr. R.D. Marshall, 30, 31; Mr. R. L. Sealy, 31, 32, 33; Hon. A.P. Wood, 33.

(EDITED)

Hon. A.P. WOOD.....33

Mr. C.A. Mascoll, 35, 36, 37, 38; Mr. D. St.E. Kellman, 37; Hon. R. R. Farley, 38.

ORDER NO. 16 – INTERNATIONAL FINANCIAL SERVICES (AMENDMENT) BILL, 2006.....39

Mr. C.A. Mascoll, 39; Hon. R. R. Farley, 39.

(EDITED)

ORDER NO. 18 – CENTRAL BANK (AMENDMENT) BILL, 2006.....39

Mr. R.D. Marshall, 39.

ORAL REPLIES TO QUESTIONS

Hon. R.C. EASTMOND.....39

QUESTION AND ANSWERS

DR. W.F. DUGID.....40

Hon. R. R. Farley, 40; Hon. R.C. Eastmond, 40.

SUSPENSION.....20

ADJOURNMENT.....40

Hon. R.C. Eastmond, 40; Hon. R. R. Farley, 40.

SPEAKERS IN THIS ISSUE

DUGID, DR. W.F.
EASTMOND, Hon. R.C.
ESTWICK, Dr. D. C.
FARLEY, Hon. R. R.
KELLMAN, Mr. D. St.E.
MARSHALL, Mr. R.D.
MASCOLL, Mr. C.A.
SEALY, Mr. R. L.
SYMMONDS, Hon. K.D.
THOMPSON, Mr. D. J. H.
WOOD, Hon. A.P.

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EDITORIAL NOTES — NOT PART OF THE REPORT

Prepared with the transcript; for checking against the recording and the Minutes.

EDITORIAL QUERIES

Points noted while preparing this report from the edited transcript. The text has not been altered except where stated.

Q1. *Masthead.* The session is not stated in the source, so no session line is printed.

Q2. *Adjournment.* Hon. R. C. Eastmond moves that the House adjourn until 'Tuesday, October 31, 2006', but the closing procedural sentence reads 'Tuesday, October 31, 2005'. His motion is also addressed to 'Mr. Deputy Speaker', while the sentence records that Mr. SPEAKER adjourned the House. Printed as in the source.

Q3. *Order No. 16.* Mr. C. A. Mascoll asks leave to take Orders 15, 16 and 18 together, naming the second as 'the Financial Institutions (Amendment) Bill, 2006'; the heading of Order No. 16 and the closing sentence give the 'INTERNATIONAL FINANCIAL SERVICES (AMENDMENT) BILL, 2006'. The Committee on this Bill is headed 'COMMITTEE OF SUPPLY'. Printed as in the source.

Q4. *Order No. 15.* The Order is headed 'SECOND READING OF THE DEPOSIT INSURANCE FUND BILL, 2006', but the Bill is cited on third reading as the 'Barbados Deposit Insurance Act, 2006'. Printed as in the source.

Q5. *Order No. 15, second reading and Committee.* Hon. R. R. Farley's seconding of the second reading runs straight into the procedural sentence 'On the motion of Hon. C. A. MASCOLL ... the House resolved itself into Committee', with no record that the question on second reading was put. In Committee the Parts are typed 'Part 111', 'Part 1V' and 'Part V1'. Printed as in the source.

Q6. *Order No. 18.* For the Central Bank (Amendment) Bill, 2006 the record goes directly to the motion to resolve into Committee; no second reading is recorded. Printed as in the source.

Q7. *Questions, Question No. 14.* The questioner is labelled 'DR. W.F. DUGID'; the PRESENT list and Hon. R. R. Farley's notice give 'Duguid'. Printed as in the source.

Q8. *Headings '(EDITED)'.* The marker '(EDITED)' from the typed original appears six times as a heading in the body of the debate. Printed as in the source.

DEBATE SUMMARY

(Editorial summary — not part of the record.)

The House of Assembly met at 10.17 a.m. on Tuesday, 24th October, 2006, with Mr. Speaker, His Honour I. A. Roett, in the Chair; prayers were taken by Reverend Canon Ivan Harewood. The Minutes of Tuesday, 17th October, 2006 were confirmed on the motion of Hon. R. C. Eastmond, seconded by Hon. R. R. Farley. Mr. Eastmond laid the Value Added Tax (Refund) (Coral Isle Rentals) Order, 2006, the Annual Report of the Fair Trading Commission for the year ending 31st March, 2006 and the Annual Report and Financial Statement of the Caves of Barbados Limited for 2003, and Hon. A. P. Wood laid audited financial statements and annual reports of the boards of management of a number of secondary schools for 1998 to 2004. Mr. Farley gave notice that the reply to Question No. 14 was ready, and Standing Orders were suspended for the rest of the Sitting.

Mr. C. A. Mascoll, the Member for St. Michael North West, obtained leave to take Orders 15, 16 and 18 together, and moved the second reading of the Deposit Insurance Fund Bill, 2006, describing it as his first real presentation of a Bill in the Chamber. He said that the proposed limit of $25 000 per depositor would cover 95 per cent of all depositors, that the Government had mandated the Central Bank in 2002 to put the system in place, and that the Barbados Deposit Insurance Corporation would levy an annual premium of 0.05 per cent on deposit-taking institutions. He explained the principles of moral hazard and adverse selection, the penalty of $25 000 or a year in prison for falsifying deposit documents, and why the Corporation was kept separate from the Central Bank.

Dr. D. C. Estwick, the Member for St. Philip West, gave the Opposition's critical support but argued that the $25 000 ceiling was too low, that leaving out credit unions was a fundamental neglect, and questioned the provision for a foreign account and the disclosure rules for directors; certain of his remarks were ordered expunged by Mr. Speaker. Hon. R. C. Eastmond, the Member for St. James North, spoke on credit unions and the withdrawn Cooperative Societies Act. Mr. D. St.E. Kellman, the Member for St. Lucy, argued that the three Bills should have been taken separately and spoke at length on foreign exchange and returning nationals until Mr. Speaker asked him to desist from irrelevant material, whereupon he took his seat.

After the suspension, Hon. R. R. Farley, the Member for Christ Church East, likened deposit insurance, in place in some 85 countries, to a safety net. Mr. D. J. H.

Thompson, the Member for St. John, complimented Dr. Estwick and argued that the debate could not be devoid of history, recalling the Financial Intermediaries Regulatory Act piloted by Sir Lloyd Sandiford. Hon. K. D. Symmonds, the Member for St. James Central, supported the Bill; on a point of order Mr. Thompson objected that he was building up a straw man, and Mr. Speaker drew attention to the word 'ignorant'. Mr. R. D. Marshall, the Member for St. Michael West Central, Mr. R. L. Sealy and Hon. A. P. Wood also supported the legislation, Mr. Marshall urging some regulation of credit unions and Mr. Sealy and Mr. Wood welcoming a debate free of partisan rancour.

Replying, Mr. Mascoll said that at June 2006 credit unions held $782 million in shares and deposits, of which about $160 million was deposits, and that their loans were almost five times their deposits; Mr. Kellman rose on a point of order to say that credit unions would lose their earlier advantage. The Bill passed through Committee, Mr. R. D. Marshall in the Chair, and was read a third time and cited as the Barbados Deposit Insurance Act, 2006. The International Financial Services (Amendment) Bill, 2006 and the Central Bank (Amendment) Bill, 2006 then passed without further debate.

At Question Time, Dr. W. F. Duguid asked about rental housing at Bonnetts, St. Matthias and Deacons. Hon. R. R. Farley replied that Bonnetts had some 108 units and St. Matthias 70, that the National Housing Corporation had no plans for more units there, and that land between Deacons Farm and the Rosemont Housing Development was being considered for rental accommodation; he undertook to consider a day care facility at Bonnetts. On the motion of Hon. R. C. Eastmond, seconded by Hon. R. R. Farley, the House was adjourned until Tuesday, 31st October, 2006 at 10.00 a.m.