

Effective And Proportionate Supervision: Strengthening Barbados' Financial Services Framework For A Changing Environment



By Rosina Knight, Deputy CEO, Financial Services Commission, Barbados

THROUGHOUT ITS FIFTEEN YEARS OF OPERATION, the Financial Services Commission (FSC) has consistently communicated and demonstrated its commitment to being a proportionate, collaborative, and risk-based regulator, focused on consumer protection and financial stability. These principles underpin a current multi-year organisational transformation programme, focused on strengthening its legislative framework, supervisory capabilities, technology, people, and stakeholder engagement. These same principles also influence our legislative and supervisory framework reforms underway; the refinement of our processes, policies, and procedures; the technological developments we are instituting; the expansion of our staff complement and the enhancement of their expertise; our engagement with stakeholders; and our approach to fiscal planning.

The FSC is the regulator and supervisor of the non-bank financial services sector comprising credit unions, insurance (including captive insurance), occupational pensions, securities, and investment funds. Subject to the enactment and commencement of the relevant legislation, we expect to assume responsibility for supervising virtual assets and virtual asset service providers, as well as other non-bank financial services. The ever-changing environment in which financial services entities and regulators coexist demands forward movement and adaptability even through times of less certainty, whether the uncertainty is triggered by rapidly evolving technology or other developments. The principles of our supervisory approach, explored throughout this article, highlight how we leverage responsiveness, predictability, and proportionality in our supervision, while remaining firmly anchored in our statutory responsibilities for consumer protection and financial stability.

Supervision In Practice

A regulated entity in Barbados begins its journey before its application is considered and decided. We promote active dialogue with prospective applicants, not only to identify areas requiring special consideration, eg innovative business models, but also to provide entities with an opportunity to engage on the legislative and regulatory requirements applicable to their business. These pre-application conversations also serve to sensitise us, the regulator, to the industry's direction, the types of changes that may be needed for future licensing, and ongoing supervisory requirements, and to our supervisory toolkit.

Within the licensing process itself, we consider how, amongst other things, the scope, nature and complexity of the proposed business, and the applicant's approach to governance and risk management, may impact the applicant's licensing conditions and regulatory obligations. Our desired outcome of the licensing process is an entity provided with the appropriate platform to conduct business, armed with a clear understanding of our expectations for how they conduct business to maintain the granted authorisation.

As a regulated entity commences and conducts business over the years, its experience will be shaped by regulatory standards grounded in international standards established by recognised standard-setting bodies, which will evolve over time to support financial soundness,

better governance, and risk management.

The FSC primarily relies on regulations and guidelines to establish standards, ensuring clarity and consistency, and to set requirements appropriate to the size, nature, and complexity of the businesses it regulates. Entities are expected to employ best practices and appropriately demonstrate capital adequacy, financial soundness, internal controls, good market conduct, sound governance, and robust risk management. Prior consultation with the industry on proposed regulations and guidelines is undertaken to ensure that requirements do not result in unintended negative consequences.

Our belief is that the board and management of a regulated entity is responsible for the effective management of that entity, functioning as the proponent and first line of defence in ensuring that, regardless of prescribed standards, the entity is not only performing well financially to the benefit of its shareholders, but operating in an otherwise sound manner, in the interest of its customers where applicable and the industry as a whole.

The FSC's monitoring of entities is an exercise that involves continuously seeking to understand the businesses of regulated entities to ascertain whether their strategic direction, financial condition, and risk management highlight actual or emerging weaknesses or elevated risks, and whether the capacity to effectively mitigate them exists. We make use of information and assurance provided by external professionals, including actuaries and auditors, while retaining responsibility for our supervisory judgments and actions. We seek to apply informed judgment, taking into consideration regulatory filings, disclosures, market and other information in developing conclusions regarding the level of risk to which individual entities, financial groups and sectors are exposed. Based on the information before us, we determine the supervisory path or plan applicable to individual entities and financial groups, and engage accordingly.

Our supervisory response is proportionate to the circumstances, and will escalate where risks are material, persistent or inadequately addressed. Responses may include enhanced monitoring, formal remediation requirements and, where necessary, enforcement or other supervisory action, including suspension or revocation of the licence or registration. Where deficiencies or elevated risks are identified, the FSC expects regulated entities to take timely and effective corrective action.

We recognise that our processes, policies and procedures impact transactions and business undertaken by regulated entities. We have revised and will continue to revise, where appropriate, ongoing requirements as the sector's maturity has evolved to the point where they no longer serve a regulatory benefit and may be more of a regulatory burden. Feedback from the industry plays a meaningful role in identifying areas for evolution, and also influences our process refinements to better serve regulated entities.

Supervision – Emerging Risks, New Opportunities, And Evolving Standards

The supervisory environment in Barbados comprises entities conducting business within Barbados and from Barbados in international jurisdictions. We therefore seek to ensure that our supervisory work aligns with international standards, including those related to AML/CFT/CPF compliance, and that we collaborate and share information with our regulatory colleagues, domestically, regionally, and internationally. We rely on a myriad of tools to do so, including bilateral and multilateral memoranda of understanding (MoUs). We see our measures in this regard as not only fulfilling our mandate as regulators, but also supporting the type of supervisory environment in which prospective and existing regulated entities want to operate.

The FSC maintains a constant view of emerging risks and the evolving standards that result, and seeks to adopt international standards with such adaptations as may be appropriate, given the scope, complexity and composition of our regulated sectors. Our regulated sectors, like those in other jurisdictions, are exposed to and have been grappling with various risks, including climate-related risks; AI, cyber, and other technology-related risks; and geopolitical risks. International standards have simultaneously evolved in various areas, including strengthening capital adequacy and management, providing more meaningful financial reporting, strengthening operational resilience and promoting robust AML/CFT/CPF practices. In recent years, we issued cyber and technology risk guidelines, updated AML/CFT/CPF guidelines, and, for specified entities, introduced climate change-related stress testing requirements.

Failure to address emerging risks or to implement appropriate standards, or poor implementation of such standards, can expose firms and jurisdictions to enhanced scrutiny, reputational damage, supervisory concerns, and potential adverse findings in international assessments.

Managing the implications of emerging risks and evolving standards has involved collaboration with the industry and industry partners, eg actuaries, accountants and other service providers, updated legislative requirements, revised regulatory requirements, including enhanced financial reporting, more intensive supervision, new or updated stress-testing requirements, adoption of digital and other supervisory tools and training, and up-skilling staff.

Naturally, there are financial implications for the industry and the FSC associated with emerging risks and evolving standards. Specialist skills are required at times by the industry and the FSC, leading to updates to existing systems and processes, staff training and establishment of new specialist roles.

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To be sure, addressing emerging risks and adopting new or updated standards come with significant implications, but they are also rife with opportunities.

Supervision Meets Innovation

The FSC has consistently maintained a positive view of innovation. We have sought to enable market development while ensuring adequate guardrails for consumer protection and maintaining a sound financial market and system through a 'facilitate with safety' approach.

Our response has included establishing a joint regulatory sandbox with the Central Bank of Barbados to provide entities with an opportunity to demonstrate their new products and services, as well as their approach to risk management, in a structured setting. It has also included assessing our existing legislation and framework to determine how it could facilitate the operation of innovative entities within the regulated space while legislative and other reforms are pursued. This approach resulted in the registration and regulation of securities entities operating in the digital assets space, which are subject to conditions and requirements we deemed appropriate.

Strategic Priorities

These include legislative and supervisory framework changes; new structures, eg a lab or hub for truly experimental innovation to be tested before consumer exposure; and initiatives to develop our staff to promote the mindset and capacity needed for supervision in an innovative setting.

Beyond innovation, we are also pursuing meaningful legislative reforms, including virtual assets-related legislation, which we expect to be enacted before the end of our financial year; modernised investment funds and securities market legislation, which are in an advanced state; and updated legislation for the insurance sector, which enhances the regulatory space for captives, other types of insurers and insurance market participants. These developments, amongst others, coupled with the adoption and implementation of a full Suptech solution in the medium term, are designed to enhance industry experience and support a strong regulatory environment.

The FSC is committed to delivering effective and proportionate supervision that protects consumers, supports market integrity and contributes to financial stability. At the same time, we recognise the importance of responsible innovation, regulatory efficiency, and a predictable environment for well-governed businesses. Our priorities are therefore to strengthen Barbados' legislative and supervisory framework, enhance our use of technology and data, develop our people, and deepen collaboration with domestic, regional and international stakeholders. Through this approach, we will support the continued credibility, resilience and sustainable growth of Barbados as an international financial centre.

Family Offices Feature

Explore how families manage wealth across borders and generations. Bernadette Carey and Robert Quinn examine governance and succession in the Cayman Islands, while ChunWai Poon and Vincent Ho look at preparing the next generation in Singapore. Henry Brandts-Giesen weighs where to set up a second hub, and Jacopo Crivellaro compares ways to operate across borders. Karen A Perreira considers Barbados's role in international family office planning, while Patricia Woo explores how trusts can fund long-term care in Asia.

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