

**TURKS & CAICOS ISLANDS FINANCIAL
SERVICES COMMISSION**

2024 Financial Stability Report Highlights

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Introduction

The Financial Services Commission (FSC) plays a critical role in safeguarding the Turks and Caicos Islands (TCI) financial system by identifying and evaluating potential risks to financial stability. A resilient financial system — that can absorb shocks with minimal interruption to essential services — is fundamental to economic health and a top priority for the FSC.

This summary report provides a synopsis of the TCI's financial system in 2024, highlighting key vulnerabilities and emerging risks. The system's effectiveness is vital to the broader economy, as it underpins credit provision and payment infrastructure, core functions of an economy. As such, continuous monitoring is essential to ensure the system can absorb losses, manage risks effectively, and maintain public confidence.

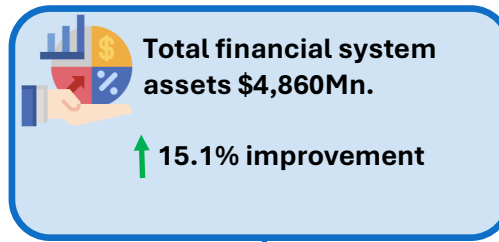
Objectives

Classification of Key Risks: Identification and categorisation of the primary risks to financial stability in TCI, alongside an evaluation of the system's capacity to withstand these challenges.

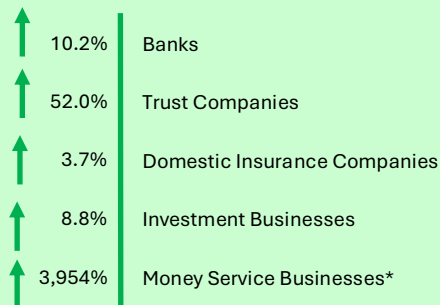
Stress Test Analysis: Comprehensive stress tests coupled with in-depth review of the results to assess the robustness and resilience of the financial system under adverse economic and financial conditions.

Emerging Risk Surveillance: Timely detection and evaluation of emerging threats to financial stability, aimed at anticipating potential future impacts and informing proactive risk mitigation strategies.

Financial System Overview



Asset Base Improvements—By Sector



Financial Sector Performance



Banking

The banking industry continued its upward trajectory in 2024, with profitability increasing and asset quality remaining strong. Liquidity and the capital position also continued to show robustness, reinforcing overall sector resilience.



Insurance

The insurance sector also saw a rise in combined profitability during the period, supported by sound solvency and liquidity indicators.



Money Service Businesses

The MSB sector recorded a decline in profitability in 2024 as revenue fell and expenses climbed. Nevertheless, the value of funds remitted grew over the review period.



Investments

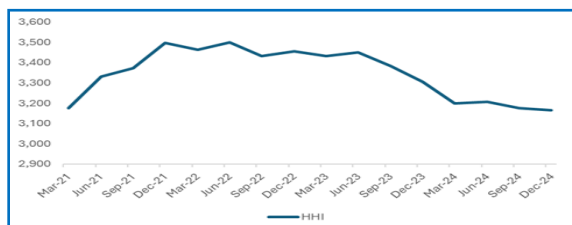
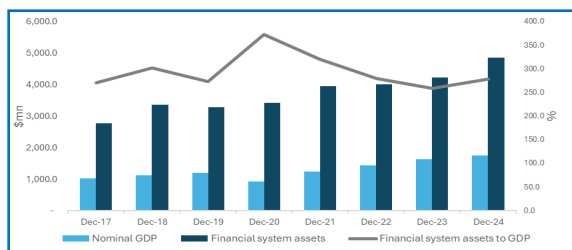
Assets under management increased, with equities continuing to dominate investment portfolios, followed by mutual funds and bonds.



Trust Companies

The trust sector's on-balance sheet assets increased in 2024. Sector income rose at a faster pace than expenses, leading to an improvement in overall profitability.

Financial Intermediation



The banking sector's assets remained heavily concentrated, with two Canadian-owned banks controlling approximately 70% of the total market share.

Nonetheless, the concentration of banking assets, measured by the Herfindahl-Hirschman Index (HHI), declined for a third consecutive year indicating a modest reduction in concentration risk within the banking sector.

* A new MSB was onboarded, hence the drastic increase in the asset base.

Risks to Financial Stability



Lack of Deposit Insurance

The lack of deposit insurance in the TCI is a risk to financial system stability in the event of a bank failure. Deposit insurance ensures depositors can swiftly access their insured funds if a bank fails, helping to prevent sector-wide panic. Encouragingly, systemically important banks remain highly liquid.



Climate Change & Financial Crime

A key climate-related risk for TCI is rising reinsurance premiums due to increasingly severe natural disasters. On the other hand, unchecked proliferation of increasingly powerful, Artificial Intelligence (AI) technologies could lead to increased financial crimes that threaten financial stability.



Decline in Correspondent Banking

Several Caribbean countries have experienced shifts in correspondent banking relationships due primarily to concerns around AML/CFT compliance and reputational risk. Termination of those relationships can limit access to cross-border payment services, increasing reliance on costlier or less efficient alternatives.

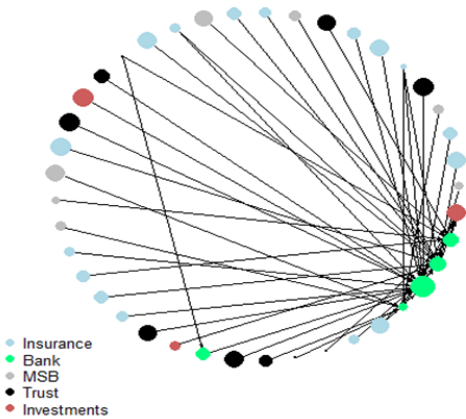


Global Economic & Geopolitical Headwinds

Rising trade policy uncertainty, fears of a potential U.S. economic slowdown, and the ongoing Israel-Iran conflict are clouding the 2025 growth outlook. Given the TCI's reliance on tourism, imports, and foreign direct investment, external pressures could pose a significant short-term risk to the local economy.

Network (Interconnectedness) Analysis

Financial interconnectedness enhances capital flow efficiency and risk diversification but also amplifies systemic vulnerabilities. In 2024, the FSC analysed the TCI's financial system, focusing on deposit concentration as a key channel for systemic risk. The study highlighted how stress in certain banks could potentially trigger a system-wide liquidity crisis through contagion. The analysis considered both domestic and cross-border linkages.



Domestic Interconnectedness: Interconnections between domestic banks and non-bank financial institutions (NBFIs) are significant due to the regulatory requirements for NBFIs to maintain non-withdrawable or “restricted” deposits, in local banks. Few large banks are central to the deposit flow network, as the primary recipients of restricted deposits. Financial distress experienced by any of these large banks may create broader systemic concerns. There were no significant interconnections between banks recorded for 2024.

International Interconnectedness: In 2024, approximately \$1.82Bn of bank liquidity was placed with financial institutions outside the TCI. 84.8% of that amount was with parent companies or affiliates in other Caribbean Islands. The Bahamas (61.6%) and the Cayman Islands (23.1%) were the top recipients of deposits. Outside the Caribbean, the United States was the largest recipient, accounting for 13.5% of deposit flows. Placement of funds with financial institutions overseas represents counterparty and transfer risk for local banks. High concentration of deposits within the Caribbean region also limits the diversification benefits of cross-border placements.



Source: TCI Financial Services Commission

Banking System Resilience

Solvency Stress Test



Solvency stress test results indicate that the banking industry remains resilient and will continue to be so for the medium term. Under both the moderate (inflation) and severe (stagflation) stress scenarios, aggregate capital remained above the 11% regulatory requirement.

Under the solvency stress coupled with concentration risk, aggregate CAR remained above the regulated requirement.



Liquidity Stress Test

Liquidity stress testing is a critical tool used to assess banks' ability to meet their financial obligations during periods of severe funding pressure.

The 2024 stress test revealed that most banks demonstrate adequate resilience

Key Policy Initiatives

Digital Asset Framework

The Commission has targeted introduction of a framework for the regulation of digital assets. The objective is to define and implement digital asset legislation and regulation.

Enhancing Supervisory Framework

- Enhancing guidance on operational risk
- Transitioning to a risk-based supervisory (RBS) framework
- Guidance for credit union supervision
- Enhancing the supervisory framework for investment businesses.



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