



FINANCIAL STABILITY REPORT 2024

Turks and Caicos Islands
Financial Services Commission



Tel: (649) 946-5314 / 941-8311 Fax: (649) 941-3569
Tel: (649) 946-2791 / 946-2550 Fax: (649) 946-1714



Email: fsc@tcifsc.tc



PO Box 140, 930 Leeward Highway, Venetian Road
Settlement, Providenciales, Turks and Caicos
Islands.

PO Box 79 Building C, Waterloo Plaza, Waterloo
Road, Grand Turk, Turks and Caicos Islands.

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Financial Stability Report 2024

Turks and Caicos Islands Financial Services Commission



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Authors

The Policy Unit: Chivel Greenland (Senior Policy Analyst) and Xuxa Gordon (Senior Policy Analyst).

Preface

The Commission is entrusted with safeguarding and promoting the stability of the financial system in the Turks and Caicos Islands (TCI). This responsibility encompasses the continuous identification, assessment, and mitigation of risks that could undermine system-wide resilience. The Commission defines financial stability as the capacity of the financial system to absorb internal and external shocks while maintaining its core functions, such as facilitating payments, allocating capital, and supporting economic activity, without significant or lasting disruption.

This report presents key developments and vulnerabilities within TCI's financial system, drawing attention to risks that may undermine its stability. In fulfilling this mandate, the Commission plays a proactive role in monitoring financial institutions and macroeconomic developments to ensure that the system remains robust and adaptive in the face of evolving challenges.

Objectives of the Report

This report aims to:

- (i) Provide an overview of risks and threats to financial stability in TCI, and evaluate the system's resilience in response to these challenges;
- (ii) Assess trends in key risk indicators and present the results of stress testing exercises; and
- (iii) Examine emerging risks and their potential implications for stability.

Scope and Focus

The report examines macro-financial developments across international, regional, and domestic landscapes, with a particular emphasis on the domestic financial system. This includes banks, investment firms, domestic insurance companies, trust companies, and money service businesses (MSBs). The domestic banking sector receives focused attention due to its critical role in financial intermediation and its potential to trigger systemic instability, given its deep interconnectedness with the broader economy. Notably, institutions licensed to operate exclusively outside of TCI are excluded from the scope of this report.

Regulatory Oversight

In addition to prudential supervision, the Commission oversees corporate service providers, non-profit organisations, and designated non-financial businesses and professionals for compliance with anti-money laundering (AML), combating the financing of terrorism (CFT), and counter-proliferation financing (CPF) standards.

Unless otherwise stated, all data referenced in this report are as of 31 December 2024.

This publication is intended to enhance public understanding and transparency regarding risks in the financial sector. The report is available for download at: <http://www.tcifsc.tc/financial-stability-reports>.

List of Abbreviations

AFSI	Aggregate Financial Stability Index
AML/CFT/CPF	Anti-Money Laundering/Combating the Financing of Terrorism/Counter-Proliferation Financing
BSI	Banking Stability Index
CAIR	Caribbean Association of Insurance Supervisors
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CPI	Consumer Price Index
FSI	Financial Soundness Index
FVI	Financial Vulnerability Index
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IADB	Inter-American Development Bank
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
LAC	Latin American and Caribbean
MaFi	Macro-Financial Index
MSB	Money Services Businesses
NBFI	Non-Bank Financial Institution
NPL	Non-Performing Loan
PARC	Producer Affiliated Reinsurance Company
OPEC	Organisation of Petroleum Exporting Countries
RBA	Risk-Based Approach
RBS	Risk-Based Supervision
RHS	Right-hand Side
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk-weighted Assets
S&P	Standard & Poor's Global Ratings
TCI	Turks and Caicos Islands
UK	United Kingdom

US	United States of America
WECI	World Economic Climate Index
WEO	World Economic Outlook

List of Caribbean Island Abbreviations

Caribbean: Tourism-Dependent Countries

Antigua & Barbuda	A&B
Aruba	ARB
The Bahamas	BHS
Barbados	BAR
Belize	BLZ
Dominican Republic	DOM
Grenada	GRN
Jamaica	JAM
St. Kitts & Nevis	SKN
St. Lucia	SLA
St. Vincent & the Grenadines	SVG
Turks & Caicos Islands	TCI

Caribbean: Non-Tourism Dependent Countries

Haiti	HTI
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Caribbean: Commodity Exporters

Guyana	GUY
Suriname	SUR
Trinidad & Tobago	T&T



Foreword

Dear Readers,

It is my privilege to present the 2024 FSR for the TCI. This report reflects the Commission's continued dedication to monitoring and assessing systemic risks within the domestic financial system and supporting its resilience, even amidst both local and global challenges.

In 2024, the global economy showed signs of stabilisation, evidenced by stronger global growth, inflation easing, and labour markets normalising. Similarly, on the domestic front, the TCI's economy continued to expand and support financial system resilience. The domestic banking sector, which accounts for the largest share of financial system assets, remained robust. Crucially, asset quality improved, supported by stronger debt servicing capacity, while liquidity and solvency remained strong.

The first half of 2025 has, however, signalled challenges. Early in the year, forecasts of global growth were revised downwards to reflect the potential for trade wars to disrupt global value

chains and dampen investment. The flaring of tensions in the Middle East has also stirred potential for commodity prices to increase, especially oil and gas. Given the significance of energy prices to the consumption basket, any material adverse movement in prices could put upward pressure on inflation. As a dollarised, import-dependent economy, the TCI is particularly vulnerable to inflationary pressures from supply chain disruptions and rising import costs. Moreover, the recent downgrade of US sovereign debt by Moody's, coupled with the risk of a US recession, could further tighten global financial conditions and dampen tourism, the TCI's primary economic driver. If crystallised, these risks could strain household budgets, increase credit risks, and pressure bank balance sheets. Against this backdrop, the Commission remains vigilant in monitoring systemic vulnerabilities to safeguard the resilience of the financial system.

The report evaluates the banking sector's preparedness to withstand adverse developments via stress tests using severe but plausible shocks. These tests, while hypothetical, are essential for monitoring financial stability and strengthening the banks' capacity to endure periods of financial stress. We are pleased to share that these tests reaffirmed the overall soundness and resilience of the banking system operating in the TCI.

The non-bank financial system, though considerably smaller, remains a significant part of the industry. The insurance industry, a key component of the sector, is largely reinsured outside the jurisdiction. While this model limits domestic exposure, vulnerabilities have arisen, related to the continued availability of comprehensive and affordable reinsurance, given the increased frequency and severity of natural disasters in the Caribbean.

This edition of the report incorporates new analysis of the interconnectedness of financial institutions operating within the TCI. This represents an important addition to the toolkit

for assessing the overall resilience of the TCI's financial system. In a jurisdiction without deposit insurance and a central bank to act as lender of last resort, understanding these connections is especially crucial. The analysis demonstrates that linkages between financial institutions – including those arising from regulatory requirements for non-bank financial institutions to hold restricted deposits with local banks – may amplify systemic risk, especially during stress periods. While systemic linkages remain a necessary feature of the financial landscape, these findings underscore the importance of vigilant and proactive regulatory oversight, with particular focus on institutions whose size and interconnectedness with other entities render them systemically important.

Looking ahead, the Commission will continue to advance various strategic initiatives to further strengthen its regulatory frameworks, including continuing the transition to a fully risk-based model of supervisory oversight.

Overall, the 2024 FSR underscores the continued strength and resilience of TCI's financial system, despite mounting uncertainties. While the outlook for the domestic financial sector remains stable, the evolving external environment demands heightened vigilance and proactive oversight. Accordingly, the Commission will maintain its focus on identifying emerging systemic risks and addressing vulnerabilities with the potential to undermine stability. By advancing a programme of rigorous analysis, stress testing, and close monitoring of the impacts of financial interconnectedness, we aim to reinforce the sector's ability to withstand shocks and ensure that financial stability continues to serve the long-term interests of the people of the TCI.



Kenisha Baccus - Managing Director (Ag.)

Executive Summary

Macroeconomic Developments

In 2024, global growth stabilised as inflation eased toward central bank targets, labour markets normalised, and goods trade rebounded; however, heightening trade policy uncertainty, concerns over a potential US slowdown, and the still-unfolding Israel-Iran conflict cast a shadow over the 2025 growth forecast. Rising protectionist measures have disrupted supply chains, fuelled import-driven inflation, and will likely lead to deferred investment and foreign direct investments. Furthermore, a US credit rating downgrade in May 2025 threatens higher borrowing costs, de-dollarisation and recessionary pressures, which for TCI's tourism-dependent economy, could mean weaker arrivals, tighter domestic credit, rising non-performing loans and heightened financial stability vulnerabilities. Escalation in mid-2025 of conflicts between Iran and Israel, with US involvement, has contributed to rising tensions in the Middle East and significantly impacted global energy markets due to that region's strategic role in oil and gas supply. Attacks on energy infrastructure have heightened fears of supply shortages, causing sharp volatility in commodity prices, a key component of global inflation. Although the recent ceasefire has somewhat eased price pressures, the risk of renewed conflict and further supply chain disruptions persists, potentially prolonging elevated interest rates, weighing on growth and heightening risks of recession or worse, stagflation¹.

In 2024, TCI's economy continued to expand, albeit at a slower pace, with real GDP growth easing from 13.6 per cent to 5.8 per cent. This outcome reflected a further normalisation of tourism activity to pre-COVID-19 levels, while real estate and construction investment provided an additional lift. Better labour market conditions drove unemployment down to 6 per cent, while inflation moderated to 3 per cent, offering relief to households and firms. On the fiscal side, a combination of stronger-than-expected revenues and below-budget expenditures produced a government surplus, aiding a further fall in public debt and sustaining a low, stable debt-to-GDP ratio. In February 2025, S&P upgraded TCI's sovereign rating from BBB+ to A- (stable outlook), reflecting robust growth, fiscal prudence and resilient financial stability indicators (AFSI², MaFi³ and BSI⁴).

Financial Sector Developments

The TCI's financial system is large relative to the size of its economy, with total assets amounting to 278.5 per cent of GDP; the banking sector alone accounts for 173.1 per cent. Banking is highly concentrated, with the two largest banks holding over 70 per cent of assets. These two institutions follow traditional credit and liquidity models, while smaller banks specialise in offshore wealth management. Two Canadian banks are designated as systemically important⁵. In 2024, the banking sector's overall funding structure remained stable, with deposits continuing to serve as the primary source for financing loans and advances. Key financial soundness indicators, including capital adequacy, liquidity, asset quality and profitability, underscored the banking system's health. Notably, uncertainty surrounding trade policies, escalating geopolitical tensions, and persistent

1 Stagflation is an economic situation characterised by slow economic growth, high unemployment, and rising inflation.

2 Aggregate Financial Stability Index

3 Macro-financial Index (MaFi)

4 Banking Stability Index (BSI)

5 Systemically important banks are banks whose failure would cause significant disruption to TCI's financial system and potentially trigger a financial crisis.

inflation present potential shocks to the global economy. These may cascade down to the local economy, posing risks to loan growth and possibly contribute to higher non-performing loans (NPLs).

The non-bank financial sector represents 105.4 per cent of GDP, comprising primarily investment sector assets that account for 84.2 per cent. Within the insurance sector, the key financial stability concern is the surging cost of reinsurance faced by local insurers due to the rising frequency and intensity of climate-related natural disasters. Given their strong reliance on reinsurers, continued extreme weather could drive premiums even higher in the medium term, or, in extreme cases, prompt reinsurers to withdraw coverage from the market entirely. This represents a potential threat to financial stability as businesses and households would be left exposed to natural disasters. Nonetheless, the sector's solvency and liquidity metrics remained strong and comfortably above regulatory floors, underscoring the sector's resilience.

While the asset base of investment businesses expanded in the past year, market volatility, particularly for firms holding a large share of financial assets, is an important risk. Given the heavy equity exposure, abrupt market swings, driven by global developments, could disrupt portfolios. Rising US recession risks may also trigger turbulence in parts of the bond market, especially impacting portfolios lacking diversification.

Trust companies also reported expansion in asset base at year-end 2024, while MSBs experienced a falloff in profit due to rising costs and falling revenues.

Financial System Soundness and Resilience

TCI's stress indicators continued to hold firm in 2024. The AFSI, MaFi, and BSI all signalled a resilient system with low systemic risk. Banks remained well-capitalised and highly liquid, fully able to meet their short- and long-term obligations. However, with borrowing costs, trade dynamics and inflation still in flux globally, vigilant monitoring of external pressures will be crucial to sustain resilience.

The banking system underwent stress testing as a prudential measure to determine its capacity to withstand financial and economic shocks. **The macroeconomic solvency stress test indicated that the banking industry remains broadly resilient over the medium term, supported by its relatively high capital adequacy levels. Simulating a liquidity stress testing scenario also confirmed that the sector, in aggregate, remains strong.** Under a second scenario, assuming withdrawals by large depositors, all banks remained liquid. The FSC will continue its close monitoring of banks' liquidity risk management and contingency funding plans to support early detection of risks to financial stability.

For the first time, the Commission undertook an interconnectedness analysis for the financial system to assess the relationships and exposures between banks and non-bank financial institutions. While lending, deposit placements, and payment systems allow capital to flow seamlessly between savers and borrowers and enable credit expansion and economic growth, those activities can also serve as means for transmitting distress throughout an industry. Instability at a single institution can spread to others, disrupting funding and liquidity channels, amplifying market shocks, and risking overall financial system stability. Given the absence of both a deposit insurance scheme and a central bank to act as lender of last resort in TCI, this analysis is essential to closely monitor developments

and identify emerging vulnerabilities.

In the TCI, domestic interconnectedness stemmed mainly from restricted deposits held to satisfy regulatory requirements, given that non-bank financial institutions are mandated to maintain a reserve of consumer and policyholder funds at local banks. While this is necessary from liquidity and solvency standpoints, it creates a tightly concentrated network where a few large banks are the primary holders of restricted deposits. Consequently, a disruption at any of the major banks could undermine the stability of reserve holdings of non-bank financial institutions. **Cross-border linkages stem from roughly US\$1.82 billion of offshore liquidity placements, 84.8 per cent with parent or affiliate banks in the Caribbean (61.6 per cent in The Bahamas, 23.1 per cent in the Cayman Islands) and 13.5 per cent in the US.** Such concentration, especially in the Caribbean, exposes TCI banks to two key risks: firstly, counterparty risk (should foreign counterparts holding TCI local deposits fail) and secondly, transfer risk (where repatriating funds back to TCI is hampered by regulatory barriers overseas). The regional clustering of deposits limits diversification benefits, as common vulnerabilities could trigger simultaneous stress.

Outlook

While robust growth has supported financial sector resilience, global uncertainty continues to weigh on the outlook. Growth will be propelled by further tourism expansion and ongoing real estate and infrastructure projects. However, a US downturn and/or intensified trade-policy friction could undercut tourism, tighten domestic financing conditions and restrict household and corporate spending, pressures likely to lift non-performing loan ratios and weigh on bank balance sheets. Furthermore, short-term imported inflation and the ever-present hurricane threat also amplify these vulnerabilities. To safeguard financial stability, the FSC will maintain regular stress testing of the banking sector. Vigilant monitoring of credit and liquidity trends, coupled with continuous evaluation of cross-border exposures, will serve as key risk assessment tools. This ongoing surveillance is essential for the timely identification of emerging risks and the implementation of coordinated, well-informed policy measures to mitigate their impact.

Risk Assessment

Lack of Deposit Insurance: A Persistent Threat

The absence of deposit insurance in the TCI presents 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 collapses, helping to prevent sector-wide panic. Without this safeguard, confidence in the banking industry could weaken, increasing the likelihood of disruption to the financial system. On a positive note, systemically important banks continue to maintain high liquidity levels, which provides a buffer against potential shocks.

Importantly, the Commission supports the Government's initiative, outlined in the Credit Union Act, to introduce a deposit insurance scheme for credit unions in TCI – and has recommended expanding this policy to cover all deposit-taking institutions in the jurisdiction.

Escalating Climate and Cyber Risks

Global environmental changes, such as rising sea levels, carbon release, and disruptions in ocean and atmospheric currents, pose serious threats to health, human welfare, and financial stability. Although the Caribbean contributes minimally to climate change-driving emissions, it suffers disproportionately from its effects. **For the TCI, a major concern is the rising reinsurance cost to local insurance companies stemming from the increased frequency and severity of climate-related natural disasters.** Insurance firms' heavy dependence on reinsurers means that, as extreme weather grows more frequent, reinsurance premiums will climb, and in the extreme case, reinsurers may withdraw from the region altogether. That de-risking would expose businesses, homeowners and governments to severe financial shocks after natural disasters, potentially destabilising the local economy. To mitigate these risks, the jurisdiction implements protective measures, including its ongoing membership in the Caribbean Catastrophe Risk Insurance Facility (CCRIF)⁶. CCRIF assists Caribbean islands by providing rapid, cost-effective insurance coverage against natural disasters such as hurricanes. This coverage, delivered through parametric insurance⁷ policies, allows governments to access quick payouts to finance immediate relief efforts and maintain basic government functions after a disaster. This strategic participation helps safeguard the economy and preserve livelihoods in the face of climate-related challenges.

On the other hand, cyber risks continue to escalate globally as artificial intelligence (AI) increases vulnerabilities in the financial systems, with cyberattacks nearly doubling since the COVID-19 pandemic. The financial sector is particularly exposed, with nearly 20 per cent of incidents affecting financial firms. Although no systemic disruptions have been identified, severe cyberattacks on major institutions could undermine confidence and disrupt services. Additionally, growing reliance on third-party providers for AI datasets, algorithms, and IT outsourcing, such as cloud computing, has exacerbated governance risks. This dependence amplifies ethical, privacy, security, and compliance concerns, contributing to systemic financial risk. Given the interconnectedness of the financial system in the TCI, a severe cyber incident could disrupt banking services and erode trust in institutions [\(see Domestic and Cross-Border Interconnectedness\)](#).

⁶ CCRIF is the Caribbean and Central America Parametric Insurance Facility and Development Insurer. It is the world's first multi-country, multi-peril risk pool based on parametric insurance and the leading provider of parametric insurance for Caribbean and Central American governments.

⁷ Parametric insurance is a type of insurance that provides payouts based on the occurrence of a specific event meeting predefined criteria, rather than compensating for the actual loss incurred.

Correspondent Banks: De-risking and Implications for the Region

Mounting AML/CFT/CPF-related compliance costs and heightened reputational risks from money laundering are driving correspondent banks to de-risk from the Caribbean. In its 2024 International Narcotics Control Strategy Report, the US Department of State identified several Caribbean jurisdictions as being vulnerable to money laundering and drug trafficking, due in part to their geographic location between North and South America. These concerns contribute to ongoing international scrutiny and pose risks to regional correspondent banking relationships.

Correspondent banking relationships are essential to both regional and local economies, underpinning access to global finance, trade and investment. Outright loss, or significant negative alteration of these relationships, could adversely affect key economic channels such as tourism revenues, remittance flows, and foreign direct investment. Global banks have pointed to the increasing complexity and cost of satisfying evolving standards, including the Basel framework, AML/CFT/CPF standards, FATCA⁸ and OECD Global Forum⁹ requirements – as key contributors to the reassessment of certain correspondent banking relationships. For those global banks, maintaining correspondent ties with small Caribbean banks that generate more modest transaction volumes can be commercially challenging. In such cases, decisions to discontinue relationships, while often based on global risk assessments, can result in reduced access to cross-border payment systems. This may, in turn, lead to reliance on more expensive or less efficient alternatives, with broader implications for financial inclusion and economic resilience for the region.

Global Economic and Geopolitical Headwinds

In 2024, global growth improved to 3.3 per cent, signalling stabilisation after past disruptions. Inflation steadily declined toward central bank targets, and labour markets normalised with unemployment largely returning to pre-pandemic levels. Global trade rebounded, primarily driven by goods trade, though manufacturing remained weak. Nevertheless, trade policy uncertainty remained high, with restrictive measures increasing sharply. Meanwhile, financial conditions eased mid-year due to US monetary easing and strong investor risk appetite, helping to stabilise markets despite ongoing economic uncertainties.

Uncertainty surrounding trade policies and US economic growth trends will significantly influence global economic growth in the short term. Swiftly developing trade wars are expected to have a negative impact on global GDP, especially in countries directly affected by tariffs; however, some nations may find opportunities to strengthen their trade networks and restructure global value chains. Nevertheless, in the wake of the overwhelming uncertainty from trade tensions, the IMF made downward revisions to global growth. Global GDP outlook was slashed by 0.5 per cent to 2.8 per cent in 2025 (see Figure 1), and trade tensions are expected to trigger abrupt shifts in the trade system. A reversal of economic integration may also disrupt supply chains, thereby hampering long-term growth

8 The Foreign Account Tax Compliance Act (FATCA) is an important development in US efforts to combat tax evasion by US persons holding accounts and other financial assets offshore.

9 The OECD Global Forum on Transparency and Exchange of Information for Tax Purposes is a multilateral framework in which over 170 jurisdictions—on an equal footing—commit to implement and peer-review two international standards; 1. Exchange of Information on Request (EOIR), whereby members share tax-relevant data when officially asked, and 2. Automatic Exchange of Information (AEOI), under which jurisdictions routinely swap financial-account data. Through rigorous, publicly-published peer reviews of each country's legal framework and its real-world practice, the Forum assigns compliance ratings, pinpoints gaps and makes recommendations—all with the ultimate goal of strengthening global tax transparency and combating evasion.

due to resource misallocation. As restrictive trade measures continue to be implemented, business and consumer sentiments will likely wane, resulting in delays in capital expenditure projects and downward pressure on foreign direct investment.

Figure 1: IMF Global Growth Estimates and Projections



Source: TCI Financial Services Commission

Furthermore, the trade conflict could fuel a reversal of the inflation outcomes locally, due to higher prices for imports. According to the IMF, global headline inflation is set to average 4.3 per cent in 2025. In a dollarised economy such as TCI's, trade-friction-induced supply-chain disruptions will be the primary source of short-term inflation as higher import costs filter through to domestic prices.

On the other hand, inflation expectations – which are already running above central-bank targets due to global economic pressures – are likely to climb further. Since those

expectations shape price-setting, renewed inflation could push up import prices and erode household purchasing power. Fortunately, a projected drop in key commodity prices, especially oil and natural gas, should help offset some of the upward price pressure in other areas of the consumption basket.

In May 2025, Moody's Ratings downgraded US sovereign debt, citing concerns about that country's fiscal outlook. This development has added to broader economic uncertainty about weakening domestic growth prospects there. The downgrade resulted in the US losing its triple-A credit rating, due to rising debt and the uncertain fiscal policy environment. It is possible that this development could result in higher borrowing costs for the US government and financial conditions worldwide could become more restrictive. Additionally, the downgrade may accelerate de-dollarisation, prompting investors to shift away from US assets, further pressuring financial markets. A continued rise in borrowing costs, combined with weak investor confidence, may heighten the risk of a slowdown in that economy.

A key geopolitical development in 2025 has been the outbreak of conflict between Iran and Israel, which escalated with the involvement of other actors, including the US. This carries potentially profound implications for the global economy, given the strategic importance of the Middle East in oil and gas supply chains.

Some implications of the conflict could directly impact global commodity prices. One immediate concern relates to the vulnerability of energy supply routes, particularly through the Strait of Hormuz, a narrow but crucial shipping route near Iran, through which roughly 35 per cent of seaborne oil trade and 20 per cent of liquefied natural gas pass every year. Brewing tensions have increased

the risk of disruptions through this critical channel, which could potentially disrupt global oil and gas supplies and affect energy price stability. **Additionally, there have been reported attacks on energy-generating infrastructure.** The parties involved have, to date, largely avoided targeting facilities critical to global markets; however, targeted strikes in the region have temporarily reduced production capacity and heightened market concerns. These developments have increased scrutiny on the Organisation of Petroleum Exporting Countries (OPEC), especially given Iran's role as its third-largest producer, as sustained instability could complicate OPEC's efforts to manage supply and maintain price stability. **There remains a risk of renewed escalation, with the potential for additional actors to become involved.** In such a scenario, the use of oil exports as a tool to gain leverage, by impeding shipping routes or other supply chain disruptions, cannot be ruled out, and would exacerbate energy market instability. Energy prices have experienced significant fluctuation since the onset of the conflict, although they have moderated somewhat since the announcement of a ceasefire in late June. Given the oil market's role as a key component of consumption baskets worldwide, persistently higher prices for that commodity could contribute to elevated inflation expectations, potentially triggering tighter financial conditions and increasing risks to the global outlook.

Heightened uncertainty, manifested in falling consumer confidence in the US, rising credit risks, and mounting recessionary and stagflationary pressures, poses acute financial stability challenges for TCI. Given the heavy reliance on tourism, a slowdown in the economies of key source markets, particularly the US, could affect visitor arrivals and erode revenue generated from hospitality and related sectors. Domestically, slowing growth could lead to tighter financial conditions, tempering of investment activity, and increased pressure on household budgets. Those developments could contribute to an increase in NPLs and strain bank balance sheets. Furthermore, inflation may experience upward pressure in the short term due to rising costs of imports. Taken together, those forces could amplify vulnerability to external shocks and pose challenges to the resilience of the TCI's financial system.

Robust Domestic Growth and Prudent Fiscal Policy Bolster Stability

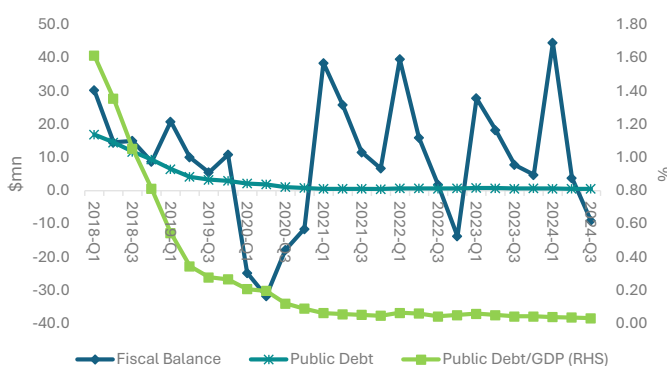
Table 1: Domestic Economic Indicators 2020 to 2025

Indicators	Actuals			Estimates		Projection
	2020	2021	2022	2023	2024	2025
Nominal GDP (\$ Bn)	0.91	1.18	1.35	1.64	1.75	1.84
Real GDP Growth (%)	-33.8	29.6	14.1	13.6	5.8	4.5
Unemployment rate (%)	11.0	9.0	8.0	7.0	6.0	5.0
Balance of Merchandise Trade (\$ Mn)	-345.8	-474.1	-678.8	-798.2	-881.9	-908.2
Current Account Balance/GDP (%)	-4.3	13.0	25.8	27.8	31.1	29.7
CPI growth (%)	2.3	4.5	6.0	5.5	3.0	2.5 ¹⁰

Sources: Ministry of Finance, the Treasury Department and S&P Ratings

While the real economic activity for the TCI continued to expand in 2024, growth experienced a further normalisation toward pre-COVID figures. Real GDP is estimated to have grown by 5.8 per cent in 2024, down from the previous year's growth of 13.6 per cent. The deceleration in economic growth was underpinned by a continued normalisation of tourism activities to pre-COVID-19 trends. Nevertheless, real estate investments and construction activities continued to buoy economic activity. Given the strong trajectory of tourism, the main employer for the country, labour market outcomes improved further, as the unemployment rate fell to 6.0 per cent in 2024 from 7.0 per cent in 2023 (**refer to Table 1**). In 2024, inflation moderated to 3.0 per cent down from 5.5 per cent in 2023, thereby offering some relief to businesses and consumers.

Figure 2: TCI Government's Fiscal Balance and Public Debt Performances Improve



Sources: TCI Financial Services Commission and Treasury Department

TCI is estimated to have achieved a general government surplus for the fiscal year 2024-2025, driven by a strong economic performance and prudent control of capital expenditures. As of 31 December 2024, revenues amounted to \$368.2 million, exceeding budget projections by 4 per cent, while expenditure stood at \$299.7 million, 15 per cent below the budgeted amount, resulting in a surplus. A strong surplus strengthens

the government's capacity to respond to economic shocks in a measured and sustainable manner. It also serves to reinforce investor confidence in the TCI and may favourably influence credit rating assessments, all of which contribute positively to financial stability.

10 It is important to note that while this projection was produced in early 2025, due to recent global economic developments, with the ability to adversely impact prices locally, it is possible that the inflation outturn for 2025 is higher.

The government has repaid essentially all its debt and is expected to remain a sizeable net creditor¹¹ (refer to Figure 2). As at 31 December 2024, the government recorded a public debt of \$0.56 million, compared to \$0.68 million at the end of 2023. The debt servicing capacity, which is measured by the ratio of public debt to GDP¹² also improved slightly over the review period. Strong economic activity and government efforts to keep the debt burden manageable have translated into a low and stable debt-to-GDP ratio for the past few years¹³. Maintaining a prudent level of public debt reduces the likelihood of financial instability stemming from debt-related pressures. Furthermore, low debt enhances access to credit on favourable terms, if needed in the future. This supports greater flexibility to weather unforeseen economic challenges and can ultimately strengthen the jurisdiction's overall credit profile.

TCI's Credit Rating Upgraded to A-, Buoyed by Strong Growth

On February 26, 2025, S&P Global Ratings upgraded the Turks and Caicos Islands' long-term foreign and local currency sovereign credit ratings from ,BBB+' to ,A-', while maintaining its ,A-2' short-term ratings¹⁴. The transfer and convertibility assessment remains¹⁵ unchanged at ,AAA'. The outlook is stable.

The stable outlook reflects S&P's assessment of balanced risks to the territory's creditworthiness over the next two years. A robust economy and stable institutions provide a solid foundation for asset accumulation, helping to mitigate the inherent risks of being a small island economy susceptible to external shocks.

The jurisdiction's ratings could, however, be affected by future economic shocks, weakening ties with the UK, or changes in per capita growth. S&P could consider a downgrade within the next two years if an unexpected external shock causes a significant economic contraction, from which the jurisdiction struggles to recover. Additionally, a sudden and unexpected weakening of institutional linkages with the UK could also influence assessments and, in turn, ratings. Conversely, the TCI's ratings could be upgraded over the next two years if per capita growth significantly exceeds S&P's expectations and this trend continues for several years, assuming all other factors remain constant.

The positive rating upgrade carries potential financial stability implications for the TCI. First, it may boost market confidence, bolster investor sentiment, and support increased capital inflows over time. Additionally, the improved credit rating could enhance credit accessibility, enabling the government to secure funding on more favourable terms, if required. Collectively, these factors bode well for financial stability.

11 A nation is a net creditor if it has more invested in foreign nations than they have invested in them. This usually implies the nation is running a trade surplus as it is taking some of the money earned on exports and investing it abroad

12 Annual GDP was converted to a quarterly series using the cubic last method.

13 S&P Capital IQ

14 Short-term ratings are generally assigned to those obligations considered short-term in the relevant market.

15 A T&C assessment is the rating associated with the likelihood of the sovereign restricting non-sovereign access to foreign exchange needed for debt service.

ASI, MAFI & BSI 2024 Trends Underscore Strength

Despite global macroeconomic and geopolitical challenges, the TCI's financial system remained resilient in 2024, with low systemic risks. This stability is reflected in key indicators: the Aggregate Financial Stability Index (AFSI)¹⁶, the Macro-financial Index (MaFi)¹⁷ and the Banking Stability Indicator (BSI)¹⁸. The BSI and the AFSI continue to affirm the resilience of the banking sector, while the components of the MaFi show no overarching signs of deterioration in financial stability (**refer to Figures 3, 4, & 5 in Appendix A**). However, given ongoing global economic and geopolitical challenges, risks are likely to increase, particularly if external pressures – such as rising borrowing costs, shifts in global trade, and inflation – begin to influence domestic conditions. While TCI's financial system has demonstrated strength, continued monitoring of global developments will be essential to ensure sustained stability.

Economic Outlook Tempered by Macro Risks & Weather Shocks

In the short to medium term, the country's economic growth is expected to be propelled by activities in the tourism, real estate, and construction sectors. TCI's tourism industry outlook is optimistic, largely driven by the ongoing implementation of the National Tourism Strategy and Implementation Plan, published in March 2023. Enhancements in connectivity, including the addition of several new routes – Southwest Airlines' direct flights to Orlando, Florida, and American Airlines' direct service to South Caicos – are projected to boost stayover arrivals and further support GDP growth. With growing visitor arrivals, particularly from the US, and ongoing government initiatives to diversify and promote the tourism sector, real GDP growth is anticipated to average approximately 4 per cent over the next four years. Overall, hotel room inventory is set to expand in 2025 with the reopening of properties like the former East Bay Resort in South Caicos and the development of new establishments across the country, slightly increasing occupancy rates. Short-term rental accommodations, which surged in 2024, are expected to rise further in 2025. Beyond tourism, construction and real estate will continue to be key drivers of economic activities, including major infrastructure investments, such as the redevelopment of Howard Hamilton International Airport in Providenciales¹⁹.

While the economic outlook for TCI is largely positive, several risks could challenge growth. An increased likelihood of economic slowdown in the US, coupled with broader geopolitical uncertainties, could dampen tourism, the mainstay of TCI's economy. Emerging trade policy measures with the potential to disrupt the international supply chains could threaten economic expansion, whilst also fueling inflation. At the same time, the TCI's location within the Atlantic Hurricane Belt continues to expose the jurisdiction to severe weather- and climate-related risks, which remain a source of downside pressure on the outlook.

16 The AFSI is a composite index generated as a weighted average of normalised macroeconomic data and financial statement variables to form an aggregate measure of financial stability. The index is grouped into four sub-indexes namely, financial development index (FDI), financial vulnerability index (FVI), financial soundness index (FSI) and the World Economic Climate Index (WECl). An increase in the value of the AFSI shows an improvement in financial stability and a decrease indicates deterioration.

17 The MaFi is an early warning signal-based indicator of systemic risk that computes scores based on the number of standard deviations of each indicator from their base period mean value. Computation of the overall value of the index requires aggregation of the signal scores (scores range from 0-5 with 5 representing the most severe signal) across all indicators. In the period leading up to instability, the signals will increase in terms of both the number of variables signalling and the severity of the signals. Increases in the value of the index reflect a deterioration in financial stability.

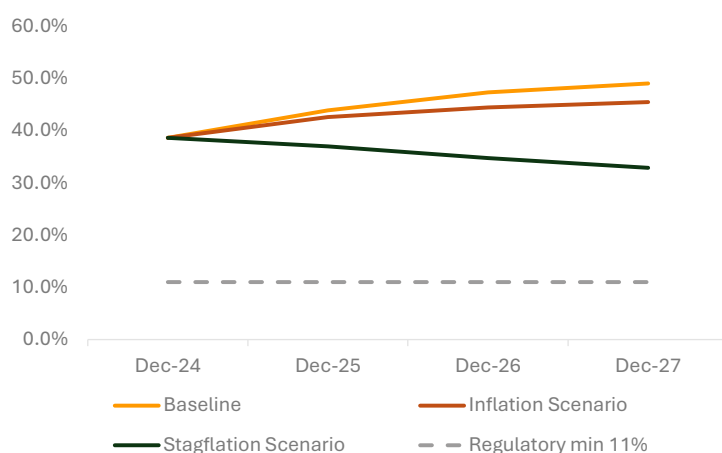
18 The BSI is computed as the weighted sum of selected, normalised indicators that reflect the IMF's core financial soundness indicators of capital adequacy, profitability, asset quality and balance sheet liquidity. A higher value represents an improvement in financial stability and a decrease symbolises a deterioration.

19 S&P Capital IQ

Stress Testing

Given the current global environment, where downside risks from economic policy create uncertainty, particularly related to trade policy going forward, threatening the TCI's financial sector, strengthening the sector's resilience remains a priority for the Commission. To this end, the FSC conducts stress testing to evaluate financial institutions' ability to withstand severe yet plausible economic shocks to their credit and liquidity positions. These tests serve as a critical supervisory tool, allowing the Commission to swiftly identify vulnerabilities in financial institutions and formulate policies to mitigate them.

Figure 6: Capital Adequacy Ratio (CAR) Trends Well Above Regulatory Minimum Amid Shock Scenarios



Source: TCI Financial Services Commission

Macroeconomic Solvency Stress Test

Banking Sector Resilient to Global Macroeconomic Shocks

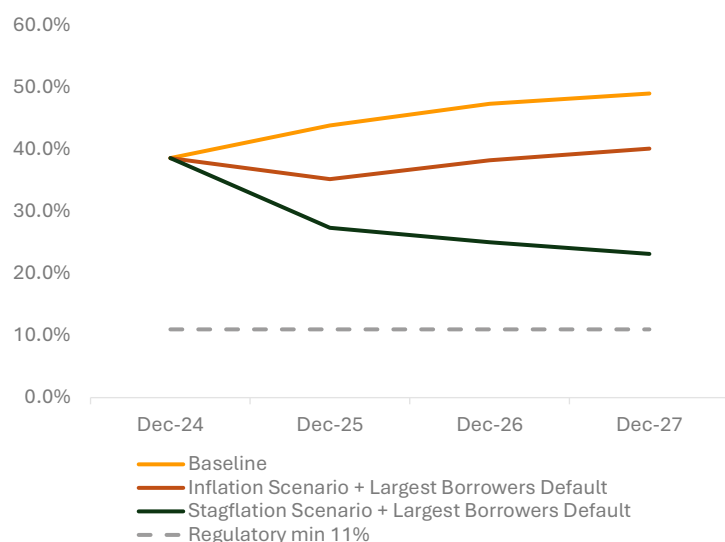
A multifactor, multi-period macroeconomic stress testing model was used to assess the resilience of domestic banks' solvency under global macroeconomic shocks. This stress encom-

passes two shock scenarios to capture varying intensities of a local economic recession triggered by a global trade war. The first scenario considers a high inflation environment, while the second accounts for the introduction of stagflation²⁰.

The solvency stress test results showed that the banking industry remains broadly resilient over the medium term, supported by its relatively high capital adequacy levels. The projected aggregate CAR for the industry grew in both the baseline and inflation scenarios (**Figure 6**) as the banks remain profitable with retained earnings contributing to the growth in regulatory capital despite dividend payouts. For the baseline scenario, aggregate CAR increased from 38.6 per cent in December 2024 to 49.0 per cent by December 2027. Under the inflation scenario, the projected aggregate CAR reached 45.4 per cent by December 2027, which is 3.6 percentage points lower than the baseline figure for the same period. Under the stagflation (severe) scenario, the industry's CAR is projected to decline but remain above the 11 per cent regulatory minimum throughout the forecasted period. Overall, the assessment found no substantial capital erosion from the macroeconomic shocks to the banks' credit portfolio. The contribution of each individual factor to aggregate CAR in all scenarios over a three-year horizon is shown in **Figure 7** in [Appendix A](#).

²⁰ Stagflation or recession-inflation is a situation in which the inflation rate is high or increasing, the economic growth rate slows, and unemployment remains high.

Figure 8: Capital Adequacy Ratio (CAR) Remained Resilient Despite Default of Largest Borrowers



Source: TCI Financial Services Commission

Concentration Risk – Default of Largest Borrowers

Aggregate CAR Remained Above Regulatory Minimum Despite Addition of Concentration Risk Scenario Concentration Risk Scenario

The addition of the default of the largest borrowers²¹ to the macroeconomic solvency stress results in a further decline in the aggregate CAR, albeit remaining above the 11 per cent regulatory minimum (Figure 8). To

incorporate a more comprehensive assessment, a scenario is considered in which macroeconomic stress conditions trigger a default by the banks' largest borrowers. The aggregate CAR declined to 23.2 per cent under the severe scenario (stagflation and default of the largest borrowers) as the banks experienced losses that significantly depleted their regulatory capital. Despite this, the sector remained resilient with industry CAR comfortably above the regulatory minimum. Of note, this stress assumes that dividend payments would be suspended.

Liquidity Stress Test

Liquidity Stress Test Highlights Vulnerability of One Non-Systemic Bank Under A Simulated Severe Stress Scenario

Liquidity stress testing²² is a critical tool used to assess banks' ability to meet their financial obligations during periods of severe funding pressure. By simulating extreme yet plausible withdrawal scenarios, these tests help identify vulnerabilities in a bank's liquidity position and evaluate the adequacy of contingency funding plans. This process is critical for maintaining financial system stability, especially in the TCI, where a significant share of banks' liquid assets is held offshore and may not be readily accessible during a crisis. This is compounded by the absence of a deposit insurance scheme, which could otherwise help to maintain depositor confidence and mitigate the impact of a bank run.

The 2024 liquidity stress test revealed that most banks demonstrate adequate resilience. The test simulated a simultaneous seven-day run on demand and time deposits to assess banks' ability to withstand liquidity pressures. The first scenario assumed a daily run rate of 20 per cent on demand deposits and 5 per cent on time and savings deposits. The results show that one bank would be unable to meet these stress outflows without resorting to contingent lines or external funding sources.

²¹ This assumes the default of the top three borrowers under the inflation scenario and the top five borrowers under the stagflation scenario

²² Assumptions/shocks for each stress are summarised in the Annex

The second scenario examined the effect of a 20 per cent daily withdrawal rate on large depositors' accounts for up to seven days. Encouragingly, results indicated that all banks were able to withstand this pressure on their largest deposit accounts (**see Table 2**). The Commission remains committed to the ongoing supervision of banks' liquidity risk management practices and ensuring that contingency funding plans are robust and effective, thus supporting the soundness of the banking system.

Table 2: Liquidity Stress Test Results

Liquidity Test		Dec - 22	Dec - 23	Dec - 24
Bank run on demand & time deposit accounts	No. of banks with liquidity drainage before 7 days	2	2	1
Bank run on large depositors' accounts	No. of banks with liquidity drainage before 7 days	0	0	0

Source: TCI Financial Services Commission

Domestic and Cross-Border Interconnectedness

Financial interconnectedness²³ drives efficient capital flows and diversifies risk, yet it also serves as a conduit to transmit shocks that spark systemic crises. Interconnectedness is a fundamental aspect of financial system development, involving various financial institutions to ensure that capital flows smoothly and efficiently from savers to borrowers. Interconnection facilitates credit expansion, fuelling economic growth and supporting the real economy. Additionally, interconnectedness allows for diversification and risk-sharing by spreading exposure across multiple financial institutions, thus reducing the impact of shocks on any single entity. However, financial system interconnection may serve as a channel for risk transmission — where the failure of weak financial institutions triggers a broader systemic crisis, amplifying financial instability across the system.

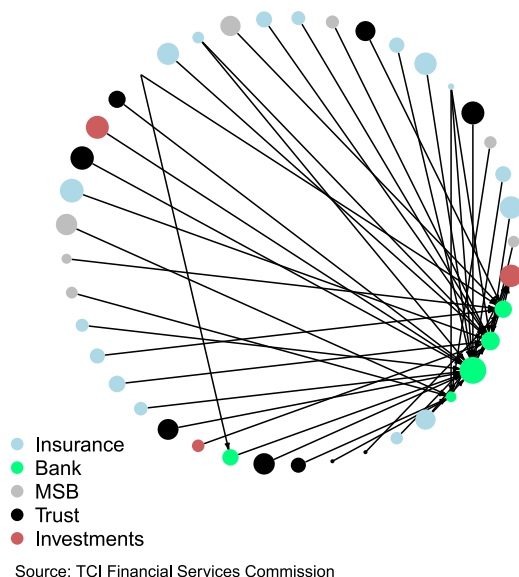
In 2024, the FSC conducted an in-depth analysis of the interconnections within the financial system of the TCI, with a particular focus on deposits as a key transmission channel²⁴ for systemic risk. This analysis examined how concentrated deposits in banks facing financial stress could potentially trigger

²³ Interconnectedness in the financial system refers to linkages between and across financial institutions (banks and non-banks).

²⁴ This refers to the process or mechanism through which risk spreads through the financial system.

liquidity crises, thereby spreading contagion throughout the financial sector. The study considered both domestic and cross-border interconnections.

Figure 9a: Domestic Interconnectedness – 2024



Domestic Interconnectedness

Restricted Deposits Drive Strong Bank-NBFI Interconnections, Presenting a Potential Channel for Risk Transmission

Domestic banks and non-bank financial institutions (NBFIs²⁵) are highly interconnected, driven by local regulatory requirements for NBFIs to hold restricted deposits. As shown in Figure 9a, there is a significant level of connectivity between domestic banks and NBFIs, as NBFIs are required to hold restricted

deposits at local banks as per regulatory requirements. Restricted deposits serve multiple purposes for NBFIs, including safeguarding policyholders' interests, meeting minimum regulatory capital requirements, covering potential penalties payable to the Commission, and satisfying the costs associated with winding up the NBFI's operations. A few large banks are central to the deposit flow network, acting as the primary recipients of restricted deposits from NBFIs. As such, any financial distress experienced by those large banks could create broader systemic concerns and compromise the security of restricted and other deposits.

Notably, there are no significant interconnections within the banking sector, owing to the nonexistence of a central bank or central payment system, which traditionally facilitates inter-bank liquidity markets.

Cross-Border Interconnectedness

Significant Overseas Liquidity Placements Present Counterparty and Transfer Risks for TCI Banks

The liquidity of TCI banks placed with overseas financial institutions heightens counterparty and transfer risks. In 2024, a significant portion of banks' liquidity (approximately \$1.82 bn) was placed with financial institutions outside the TCI (refer to Cross Border Deposit Outflow in [Appendix A](#)). Most of this liquidity (84.8 per cent) was with parent companies or affiliates in other Caribbean Islands. The Bahamas and the Cayman Islands were the primary recipients of deposits, amounting to 61.6 per cent and 23.1 per cent, respectively. Outside the Caribbean, the US was the largest recipient, accounting for 13.5 per cent of deposit flows. The placement of funds with financial institutions overseas represents counterparty risk²⁶ for local banks, even if these funds are placed with subsidiaries, as domestic banks

25 NBFIs consist of the Trust Companies, Money Services Businesses, Investment Businesses, and Domestic Insurance Companies.

26 The risk that one party in a financial transaction may default on its obligations, leaving the other party exposed to potential losses.

may be unable to recover funds should their foreign counterparts face financial distress. Additionally, transfer risk arises from potential regulatory, operational, or market constraints in foreign countries, which may impede or delay the repatriation of funds when needed. Importantly, the high concentration of deposits within the Caribbean region potentially limits the diversification benefits of cross-border placements, given that many countries within the region share similar vulnerabilities, including related to climate change.

Analysis of the Financial System

Structure of the Financial System

Figure 10: Banking Sector remained highly concentrated as measured by HHI



Source: TCI Financial Services Commission

Financial System Assets are About 2.8 Times GDP, with the Banks as the Largest Sector

The TCI features a large financial system relative to its economy, with assets amounting to 278.5 per cent of GDP. The banking sector is the largest in the financial system, with assets of 173.1 per cent of GDP (\$3.02 billion). As at December 2024, the Banking sector remained highly concentrated (see

Figure 10) with a Herfindahl-Hirschman Index (HHI²⁷) of 3165, indicating limited competition. The two largest banks collectively account for over 70 per cent of total banking assets. These banks follow a traditional business model, with credit and liquidity as their main sources of risk. In contrast, smaller banks are niche players specialising in offshore wealth management. Among the larger banks, two retail Canadian banks are identified as Systematically Important Banks (SIBs) for the TCI economy.

Assets in the non-bank financial system²⁸ accounted for approximately 105.4 per cent of GDP, with the investment sector as the main contributor. The investment sector represents the largest non-bank sector with total assets under management amounting to 84.2 per cent of GDP (\$1.47 billion). Within the investment sector, there were seven investment dealers and eleven mutual funds and exempt mutual fund managers operating in the TCI. Additionally, there were six trust companies and four money service businesses in operation as at 31 December 2024.

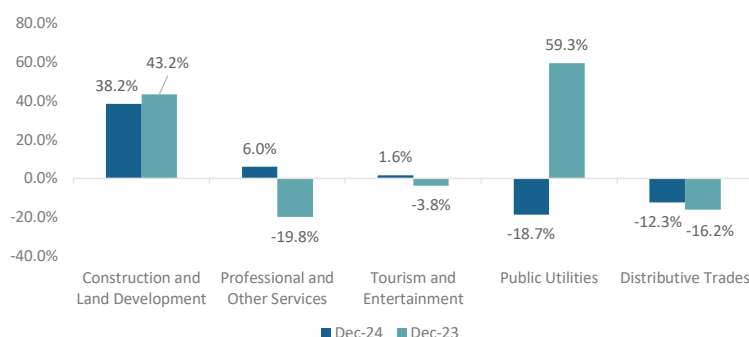
²⁷ The HHI is defined as the sum of the squared share of all banks' assets. It takes into consideration each bank's share of assets within the sector and is an indication of the degree of asset concentration. A market with an HHI of less than 1,500 is considered competitive, an HHI of 1,500 to 2,500 is moderately concentrated, and an HHI of 2,500 or greater is highly concentrated.

²⁸ Trust Companies, Money Services Businesses, Investment Businesses, Domestic Insurance Companies.

The domestic insurance industry remained relatively small (7.3 per cent of GDP), with significant reinsurance outside the island. Approximately 80.0 per cent of domestic non-life insurance risk, the larger of the two insurance segments, was ceded to reinsurers abroad, significantly reducing exposure to the domestic economy. The ratings assigned to reinsurers reflect their robust financial positions, ensuring their ability to fulfil policy claims under agreements with TCI insurers ([see Table 3 in Appendix A](#)). Notably, the sector is currently transitioning to the IFRS 17²⁹ accounting standard, which became effective on January 1, 2023. The transition will improve financial stability reporting for the insurance sector by introducing consistent, transparent, and risk-sensitive valuation of insurance liabilities. This enhances comparability and reliability of financial statements, enabling the Commission

to better assess the health and resilience of domestic insurers.

Figure 11a: Growth in banks' lending to the top five corporate sub-sectors



Source: TCI Financial Services Commission

The Banking Sector

Loan Growth

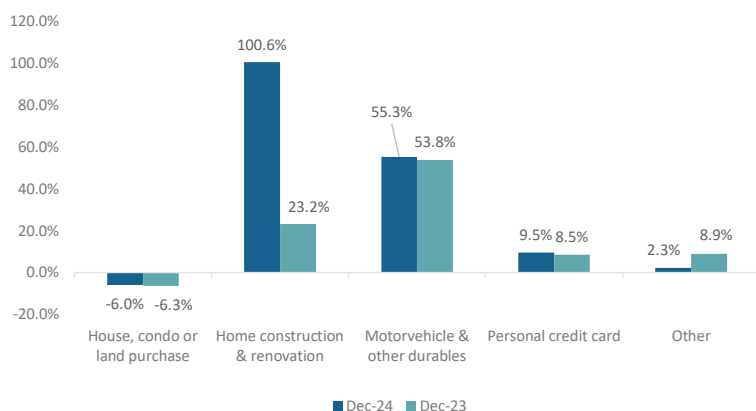
Construction and Land Development Drove Credit

Expansion Amid Global Macroeconomic Shocks and Rising House Prices

Credit growth trended upwards, driven by construction and land development. As at December 2024, the banking sector's total loan portfolio increased by 7.4 per cent, reaching \$919.2 million. This growth was mainly attributed to an increase in corporate credit to the construction and land development

sector, as other corporate sectors primarily experienced year-over-year declines or marginal growth ([see Figure 11a](#)). Personal loans contributed to overall loan growth with a 6.5 per cent increase year-over-year, driven by household construction and renovation and motor vehicle loans ([see Figure 11b](#)). Notwithstanding, the largest subsection of personal loans ([see Figure 20 in Appendix A](#)), House, condo or land purchases, continued

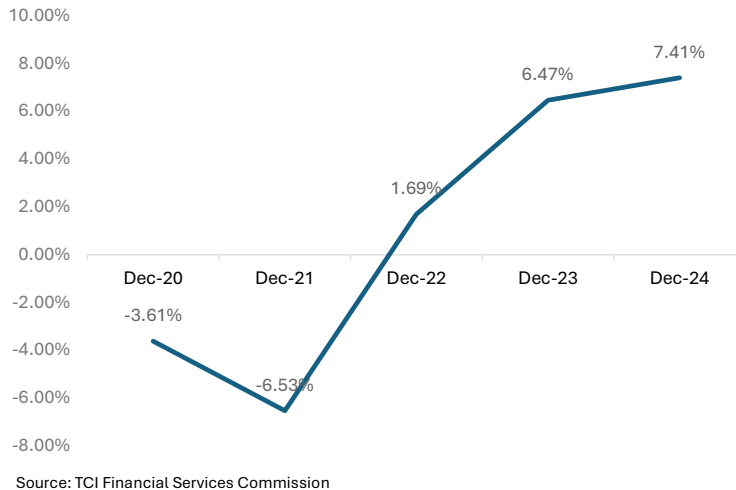
Figure 11b: Growth In Banks' Lending to the Personal Sub-Sectors



Source: TCI Financial Services Commission

29 This standard requires insurers to recognise profits as insurance services are delivered (rather than when premiums are received) and provide information about insurance contract profits the company expects to recognise in the future.

Figure 12: Year-Over-Year Loan Growth



its declining trend observed in recent years. This trend is likely resultant on increasing house prices in recent years, which have dampened consumer demand.

The risk of a global economic slowdown poses a potential threat to local credit activity.

Despite this, historical trend indicates that credit growth has improved consistently over the past three years (see **Figure 12**). Given banks' reliance on interest income generated from loans as a source of

revenue, any deceleration in loan growth could negatively impact profitability. However, considering TCI's favourable macroeconomic outlook, moderate loan growth is anticipated in the short to medium term, driven by the tourism, real estate, and construction sectors. Importantly, potential shocks to the global economy due to trade policy uncertainty and geopolitical tensions present downside risk to loan growth ([see Global Economic and Geopolitical Headwinds](#)).

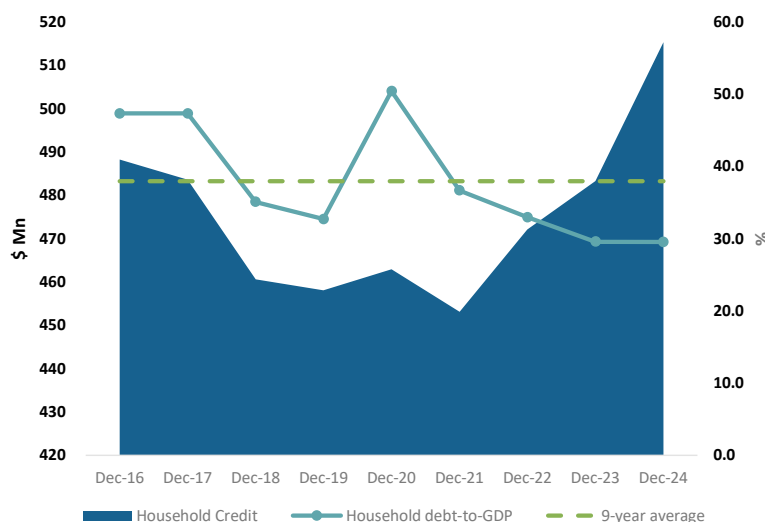
Asset Quality

Banks Maintained Strong Asset Quality, Despite Emerging Macroeconomic Risks

Banks' asset quality remained robust over the review period as non-performing loans (NPLs) remained low. The ratio of NPLs to total loans remained at low levels (2.9 per cent) over the review

period (refer to **Table 4 in Appendix A**), indicative of high asset quality. This high asset quality has contributed to the overall stability of the banking sector.

Figure 13a: Household Debt-to-GDP

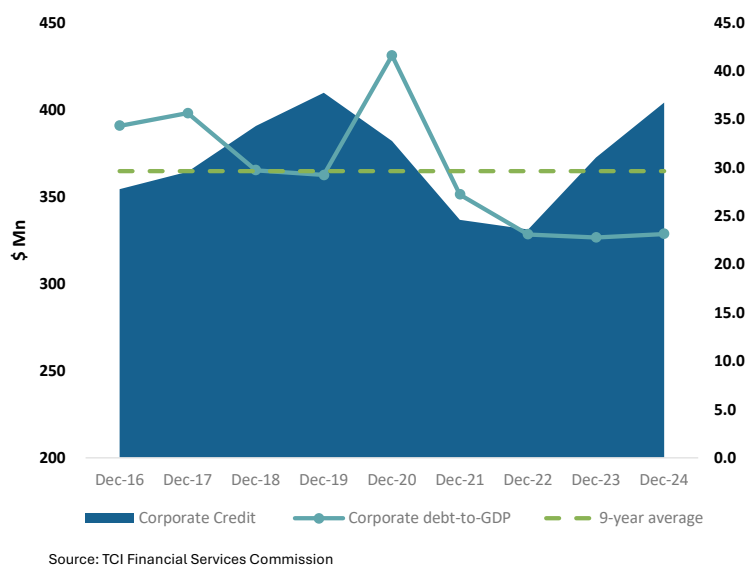


In 2024, banks maintained adequate provisions against credit losses. The NPL coverage ratio declined slightly by 3.9 percentage points to 90.5 per cent year-over-year, indicating that NPLs have marginally outpaced provisioning levels. Despite this decline, the coverage ratio remained within acceptable levels and reflects

a prudent level of provisioning, particularly since asset quality has been relatively stable. This suggests that banks remain well-positioned to absorb potential credit losses without compromising financial stability.

Potential deterioration in global macroeconomic conditions presents downside risks. Specifically, accelerated inflation or a reduction in growth globally, particularly in the US, could materially impact debtors' ability to repay loans within the TCI. This is especially true considering the TCI economy's heavy reliance on tourism. In such an event, banks could see a significant increase in NPLs and would need to increase loan loss provisions. Nonetheless, results from the solvency stress test ([see Macroeconomic Solvency Stress Test](#)) demonstrate that the banking sector is adequately capitalised to absorb credit losses arising from macroeconomic shocks.

Figure 13b: Corporate Sector Debt-to-GDP



Household and Corporate Sector Level of Indebtedness tempered by Economic Growth

The declining level of indebtedness in both the household and corporate sectors -- reflected in their debt-to-GDP ratios (Figures 13a & 13b) -- could mitigate the impact of economic shocks on the financial sector. Sound growth in domestic economic activity has kept debt-to-GDP

ratios for both household and corporate sectors below their respective 9-year averages since December 2021. Despite an increase in loans across both sectors, GDP growth has offset credit expansion, keeping debt ratios relatively stable in recent years. This trend suggests improved macroeconomic financial stability and potentially healthier household and corporate balance sheets.

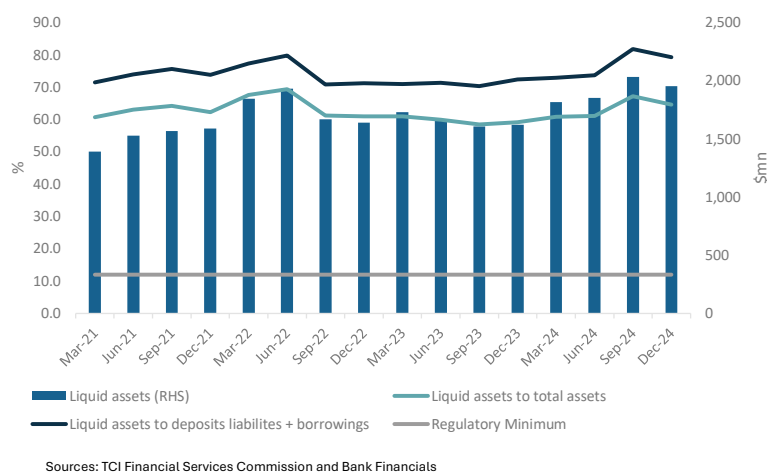
Liquidity Analysis

Banking Sector Maintained Robust Liquidity Position

Throughout the review period, the banking sector maintained strong liquidity, reflected in robust ratios. The aggregate level of liquid assets to total liabilities stayed well above the regulatory minimum of 12 per cent ([see Figure 14](#)), and the liquid assets to short-term liabilities ratio remained relatively high, trending up above the previous year ([see Table 4 in Appendix A](#)).

Liquid assets continued to represent the largest share of banks' total assets. Total liquid assets increased by 20.3 per cent year-over-year to \$1.95 billion, accounting for 64.6 per cent of banks' total assets. A significant portion of this liquidity is held as placements with parent companies or affiliates outside the TCI, primarily in the form of demand and fixed deposits maturing within one year. This trend partly reflects the currently limited depth of domestic investment avenues in the TCI, particularly the capital and money markets.

Figure 14: Liquidity Profile of the Banking Sector

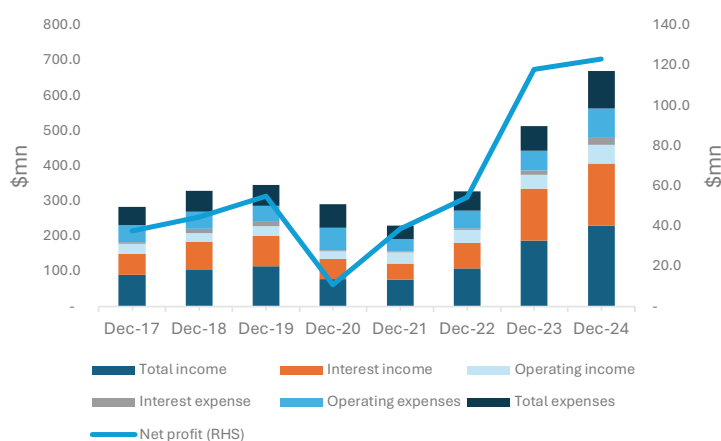


Deposits Continued to be the Primary Source of Funding for Credit Growth

Customer deposits remained the primary funding source for banks' credit expansion (see Figure 15 in [Appendix A](#)). In particular, the gross loans to customer deposits ratio (LDR³⁰) trended well below 100 per cent, indicating that deposits are more than sufficient to finance loan growth. As such, the banking sector has no im-

mediate need to rely on more expensive wholesale funding for credit expansion, which provides a cost advantage in the current high-interest rate environment. Notably, a LDR that is too high indicates that banks' funding position has deteriorated, while a LDR that is too low implies that banks may not be earning as much as they could. Overall, the banks' liquidity and funding risk indicators remain robust (see Table 4 in [Appendix A](#)), implying sufficient liquidity to meet short-term obligations and that the banking sector is primarily financed by deposits instead of more expensive wholesale funds.

Figure 16: Banking Sector Top and Bottom Lines Continue to Improve



Earnings and Profitability

Strong Performance Persists in the Banking Sector

Banks' profitability remained robust over the review period, showing strong improvements in both the top and bottom lines. During 2024, annualised interest income and operating income increased by 19.6 per cent and

34.6 per cent, respectively. In the prevailing interest rate environment, new loans carry higher rates due to their connection to international benchmarks such as **SOFR**³¹ and **EFFR**³². Additionally, variable-rate loans, including mortgages, were repriced at elevated levels. The growth in operating income was due to higher income from fees and commissions as well as foreign exchange gains on transactions. Together, these factors contributed to an overall increase in interest income for the year.

30 The TCI does not impose a regulatory limit on the LDR, and there is no universally established international regulatory standard. However, an LDR in the range of 80–90 per cent is generally considered healthy; below 80 per cent may suggest underutilised funds, whereas above 90 per cent could signal emerging liquidity risks. A ratio exceeding 100 per cent indicates reliance on external funding sources.

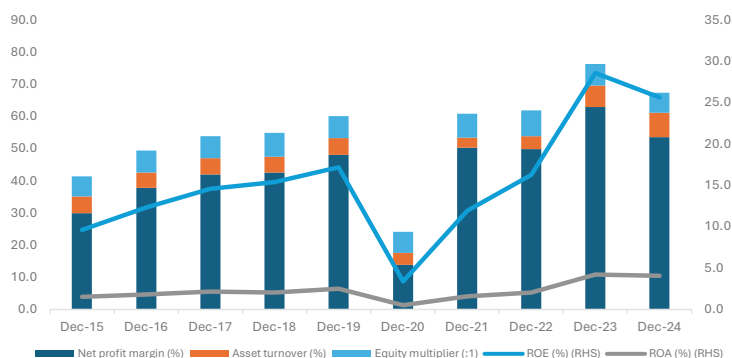
31 The Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and loans.

32 The effective federal funds rate (EFFR) is a critical interest rate in the U.S. financial system, representing the average rate at which depository institutions (such as banks and credit unions) lend balances to each other overnight. The New York Fed publishes the EFFR for the prior business day on the New York Fed's website at approximately 9:00 a.m.

Banks' interest expenses surged by 61.4 per cent, while operating expenses rose by 46.2 per cent.

The sharp increase in interest costs was primarily driven by a 43.7 per cent rise in interest paid on deposits, reflecting the impact of the current higher interest rate environment. Meanwhile, operational expenses climbed due to a 45.7 per cent increase in other costs. However, a reduction in provisions for loan losses helped offset some of the overall rise in annual expenses. Against this backdrop, sector-wide profits grew moderately by 4.5 per cent, reaching \$123.2 million in 2024, following a 117.1 per cent surge in the previous year (refer to Figure 16).

Figure 17: Banking Sector Profitability Ratios Trend Decelerates



Source: TCI Financial Services Commission

tion, while the equity multiplier was lower, indicating reduced financial leverage within the sector. Return on assets (ROA) stood at 4.1 per cent in 2024, remaining largely unchanged from 4.2 per cent in 2023 (see Figure 17). This stability in ROA reflects a sector that continues to demonstrate strong efficiency in managing its balance sheet to optimise profitability.

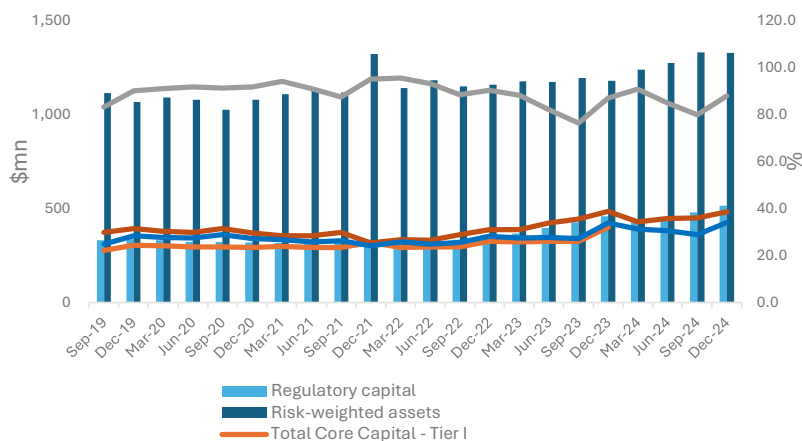
2024 profitability ratios moderated yet remained robust.

Return on equity (ROE) ended the year at 25.7 per cent, down from 28.6 per cent in 2023. Using DuPont Analysis to assess the ROE, it revealed that the deceleration was primarily due to a falloff in the net profit margin. Conversely, asset turnover improved, signalling greater efficiency in revenue genera-

Capital Adequacy

Capital Adequacy Levels Remained Resilient

Figure 18: Capital Adequacy Remains Resilient



Sources: TCI Financial Services Commission and Bank's Financials

The banking sector maintained a strong solvency position throughout the review period, demonstrating substantial buffers against potential balance sheet shocks. By the end of 2024, the aggregate Capital Adequacy Ratio (CAR)³³ stood at 38.8 per cent, significantly exceeding the regulatory minimum of 11 per cent of risk-weighted assets and remaining largely

33 Capital adequacy ratio is the ratio of regulatory capital to risk-weighted assets.

unchanged from 2023. Similarly, banks' tier 1 capital ratio saw a slight increase, reaching 34.1 per cent in 2024 (see Figure 18).

Total Core Capital³⁴ grew by 13.4 per cent, surpassing the improvements recorded over the previous three years. This growth, primarily driven by retained earnings (+17.7 per cent) and statutory reserves (+16.5 per cent), is particularly important, as core capital represents the industry's most stable and reliable financial foundation, acting as a crucial buffer during periods of financial distress. A robust core capital base strengthens the sector's resilience, allowing it to stabilise in challenging economic conditions. RWA also expanded by 12.5 per cent during the review period.

The Non-Bank Sector

Insurance Sector

Non-Life Insurance

Table 5a: Financial Soundness Indicators – Non-Life Insurance Sector

Ratio	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Solvency Ratio - Standard minimum 25%					
Total Equity / Total Liabilities	34.3	33.6	34.4	54.9	44.4
Return on Equity					
Net Income / Total Equity	25.0	26.0	-1.0	9.8	12.7
Combined Ratio - Standard max 100%					
Total Underwriting Expenses / Net Earned Premiums	72.0	68.3	104.0	83.2	86.0
Liquidity - Standard minimum 95%					
Liquid Assets / Total Liabilities	121.9	127.0	125.3	136.7	125.8

Source: TCI Financial Services Commission

Table 5b: Financial Soundness Indicators – Life Insurance Sector

Ratio	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Solvency Ratio - Standard minimum 8%					
Total Equity / Total Liabilities	455.5	403.2	374.0	320.6	355.7
Return on Equity					
Net Income / Total Equity	5.1	0.5	5.9	9.8	10.0
Liquidity - Standard minimum 60%					
Liquid Assets / Total Liabilities	490.9	470.9	383.2	370.2	328.0

Source: TCI Financial Services Commission

³⁴ Total Core Capital consists of common equity tier 1 (CET1) capital, which includes common shares, retained earnings, and other comprehensive income.

Total assets in the non-life sector increased relative to the prior year. Total non-life insurance assets experienced a 3.0 per cent growth year-over-year, moving to \$107.6 million, as insurers increased their cash and deposits due to higher gross premiums. The non-life sector continues to make up the lion's share of the industry, accounting for 86.7 per cent of total insurance assets.

Total liabilities for non-life insurers increased by 10.6 per cent year-over-year to \$74.5 million, primarily driven by amounts payable to the insurers' head offices for reinsurance premiums paid on their behalf. Over the same period, insurance liabilities rose by 4.0 per cent to \$51.9 million, mainly reflecting an increase in unexpired premium provisions, stemming from the rise in gross premiums written.

Rising Reinsurance Costs Threaten Premium Growth in the Non-Life Insurance Sector

Gross premiums for the non-life sector grew by 9.0 per cent for 2024 compared to an increase of 23.6 per cent for the prior year. This movement reflects a normalisation in premium growth after general insurers significantly raised premium rates in 2023 to pass on elevated reinsurance costs in a "hardened³⁵" reinsurance market.

Future growth in gross premiums may be constrained by rising reinsurance costs. Physical climate risk has led to higher frequency and severity of natural disasters in the Caribbean, prompting reinsurers to raise premium rates for regional insurers ([see Climate Risk Section](#)). In response, local insurers may need to continually increase their premium rates to offset this higher cost. This could reduce consumer demand for insurance protection or result in underinsurance, ultimately hindering gross premium growth. Moreover, elevated reinsurance expenses may also constrain insurers' capacity to write new business.

Profitability for the non-life sector improved year-over-year. As of year-end 2024, net profit for non-life insurers rose by 16.0 per cent to \$4.21 million. The sector also recorded a return on equity (ROE) of 12.7 per cent, up from 9.8 per cent in the previous year. This improvement was driven by stronger aggregate underwriting income, supported to a lesser extent by higher interest income on deposits.

Strong Solvency and Liquidity Positions

Solvency and liquidity positions remained strong in 2024, despite some weakening. The aggregate solvency position of the non-life sector has decelerated from 54.9 per cent to 44.4 per

35 Reinsurance becomes more expensive, less available, and subject to stricter terms and conditions.

cent over the reporting period. This falloff was driven by a reduction in retained earnings and reserves, as high reinsurance costs led to significant net losses for one non-life insurer. Despite this, the sector's solvency position continued to trend well above the 25 per cent regulatory minimum. Liquidity also remained strong and well above the 95 per cent regulatory minimum, although the total liquid assets to total liabilities ratio declined from 136.7 per cent to 125.8 per cent over the reporting period **(see Table 5a)**. This high level of liquidity was attributed to a combination of the FSC's requirement for insurers to hold restricted deposits as well as the absence of a local capital market offering investment products.

Overall, non-life insurers' solvency and liquidity positions remained well above the regulatory minimums, indicating their ability to meet long and short-term obligations.

Life Insurance

Premium Growth Challenged by Slow Demand for Life Insurance Products

The life insurance sector's assets expanded by 8.4 per cent to \$16.5 million year-over-year. Insurance liabilities increased by 9.8 per cent to \$2.44 million year-over-year due to higher claims provisions.

Gross premiums for the sector remained relatively flat over the review period, increasing marginally by 0.7 per cent to \$2.1 million. This subdued growth was primarily driven by weaker performance in the two largest product segments. **Creditor Life**, which comprised 40.7 per cent of total gross premiums, declined by 4.3 per cent year-over-year—likely due to reduced demand for personal loans tied to housing, condominiums, and land purchases. Meanwhile, growth in **Ordinary**

Life, which accounted for 38.7 per cent of premiums, slowed significantly, decelerating from 11.1 per cent to just 2.5 per cent due to policy surrenders and lapses.

Looking ahead, growth in these key product lines may continue to face headwinds. Demand for Creditor Life is expected to remain subdued given the ongoing decline in loan activity for home purchases. Moreover, market interest in life insurance products appears modest, potentially influenced by the TCI's small population and demographic characteristics, which have typically shown limited uptake of life insurance.

Financial Soundness Indicators (FSIs) for the life insurance sector remained strong over the review period. Evidenced by solvency and liquidity indicators trending well above their respective regulatory minimums **(see Table 5b)**, this suggests that life insurers are well-positioned to meet their short and long-term obligations.

Trust Companies

Assets and Net Income Sustain Growth Momentum

The trust sector experienced substantial growth in 2024, driven by a surge in assets, steady income expansion, and well-managed expenses, leading to a notable rise in net profit. By December 2024, the trust sector's on-balance sheet assets had grown by 52.0 per cent, reaching \$6.1 million. This increase was primarily driven by a 101.8 per cent rise in cash and equivalents. Additionally, significant growth in loans and advances (+20.9 per cent), certificates of deposit (+17.5 per cent), and other assets (+19.5 per cent) further contributed to overall asset expansion.

Total consolidated income for the sector climbed by 5.6 per cent to \$5.8 million during the period. Income from services, which accounted for approximately 99 per cent of total revenue for trust companies, saw a 5.9 per cent increase. Meanwhile, total consolidated expenses remained well-managed, growing by just 2.3 per cent in 2024. This was largely due to a substantial 35.5 per cent year-over-year decline in other expenses, which made up 71 per cent of total expenditure. However, this was partly offset by increases of 5.8 per cent and 3.3 per cent in service-related and operating expenses, respectively. As a result, net profit for the sector rose by 15.2 per cent, reaching \$1.6 million in 2024.

Given that the trust sector's assets account for less than 1 per cent of total financial system assets, the potential risks to financial stability from this sector are significantly minimised. Its relatively small footprint means that even in the event of financial distress within the sector, systemic repercussions across the broader financial landscape would likely be limited. Additionally, the sector's relatively small scale allows for more targeted risk management measures, ensuring that emerging vulnerabilities can be quickly and effectively contained.

Money Service Businesses (MSB) Sector

Remittance Activities Extend Growth Trajectory in 2024

In 2024, the MSB sector experienced a decline in its financial performance driven by falling revenues and rising costs. Revenue contracted by 5.7 per cent to \$1.06 million, primarily due to a sharp 52.7 per cent drop in other income, which was partially offset by a 3.9 per cent increase in remittance fees and a 17.9 per cent rise in commission fees. At the

same time, total expenses grew by 29.1 per cent (\$287 thousand), reaching \$1.2 million. As cost growth outpaced income expansion, net profit fell by \$216 thousand for the year.

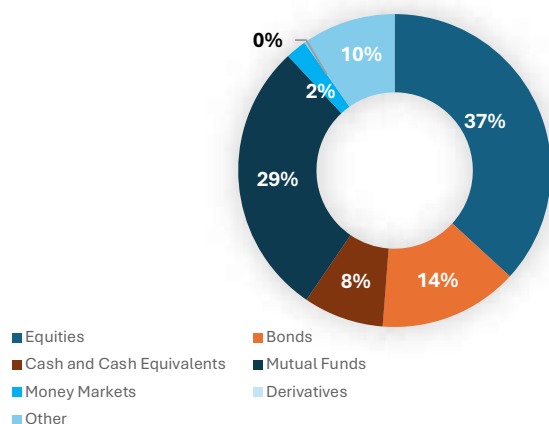
However, in 2024, the total value of remitted funds maintained its upward trajectory, rising by 9.8 per cent to reach \$163.7 million. Outbound remittances made up 91.5 per cent of the total, increasing to \$149.8 million—a 9.0 per cent growth over the previous year. Growth was observed across all major recipient countries, except Haiti.

The Dominican Republic continued to be the foremost destination for outbound funds, accounting for 35.4 per cent of total remittance activity, followed by Haiti at 14.9 per cent and Jamaica at 14.0 per cent. Notably, remittances for Haiti experienced a slight decline in outbound activities in 2024, likely influenced by the ongoing foreign exchange policy that was implemented in October 2020.

Meanwhile, remittance inflows increased by 19.6 per cent, reaching \$13.9 million in 2024. The US continued to be the primary source of inbound funds to TCI, accounting for 64.4 per cent of total inflows.

Key risks associated with remittance activities include anti-money laundering (AML) and counter-terrorism financing (CFT) concerns, while the specifics of the tax proposed in the US' new bill is uncertain. Financial institutions facilitating remittance activities must ensure that they are compliant with AML/CFT regulations. Increased scrutiny can lead to higher compliance costs and potential disruptions in remittance channels locally. Notably, the implications of newly enacted fiscal policy measures in the US, particularly the 3.5 per cent tax on remittances from non-American citizens, remain uncertain for the TCI at this stage.

Figure 19: Investment Products Breakdown by Type



Source: TCI Financial Services Commission

reporting the largest growth. Equities remain the predominant investment class, accounting for 37 per cent of the total, followed by mutual funds (29 per cent), bonds (14 per cent), and other assets account for the remaining 20 per cent (refer to Figure 19).

Investment Business Sector

Assets Under Management Expanded Further in 2024

Assets managed by investment businesses for clients increased by 8.8 per cent to \$1,470.0 million as of December 2024. Growth was recorded in three of seven sectors--money markets (+272.9 per cent), cash and cash equivalents (+56.7 per cent),

Market volatility poses a material risk, especially for investment firms that hold over 30 per cent of the financial system's assets. With equities comprising the majority of assets under management, sudden market fluctuations, influenced by global economic conditions or policy changes, could lead to widespread portfolio disruptions. Furthermore, still evolving policy shifts in the US which have raised concerns about potential economic slowdown, could exacerbate volatility in certain bond market segments. These developments are likely to have widespread effects on investment portfolios, particularly for those with insufficient diversification across assets and asset classes.

Key Policy Initiatives

The Commission remains committed to implementing policy initiatives aimed at enhancing the financial system's resilience and ensuring its long-term stability. Several key initiatives have been prioritised for immediate action, including:

Building A Framework for Virtual Assets

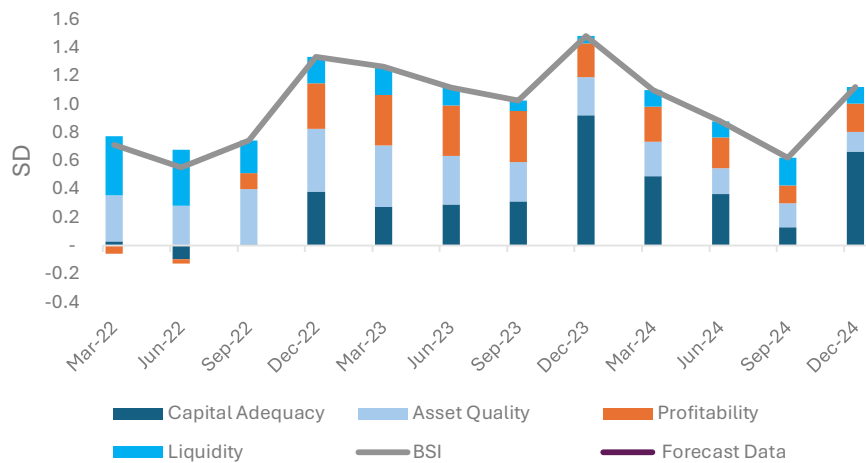
In partnership with key stakeholders, the Commission is actively developing a regulatory framework for virtual assets. This initiative seeks to establish and implement legislation that balances risk mitigation with support for innovative businesses in the TCI.

Enhancing the Supervisory Framework

The Commission continues to progress the transition to a risk-based supervisory (RBS) framework for all entities under its supervisory remit. The Commission is also in the process of revising requirements for management of operational risk, to better reflect international expectations, and appropriately harmonise its requirements and oversight across various sectors. Other scheduled policy initiatives include development and implementation of a regime for credit union supervision, and strengthening of the supervisory framework for investment businesses.

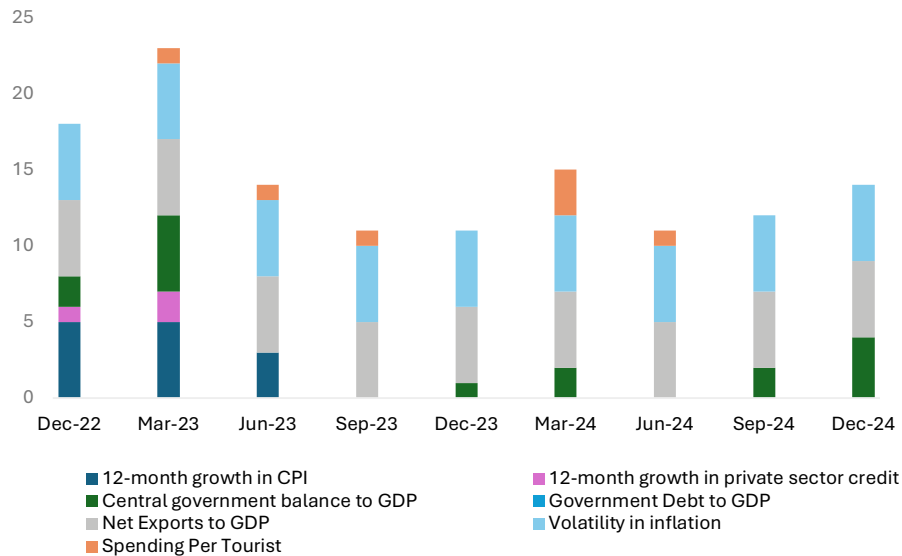
Appendix A

Figure 3: BSI and Sub-Components



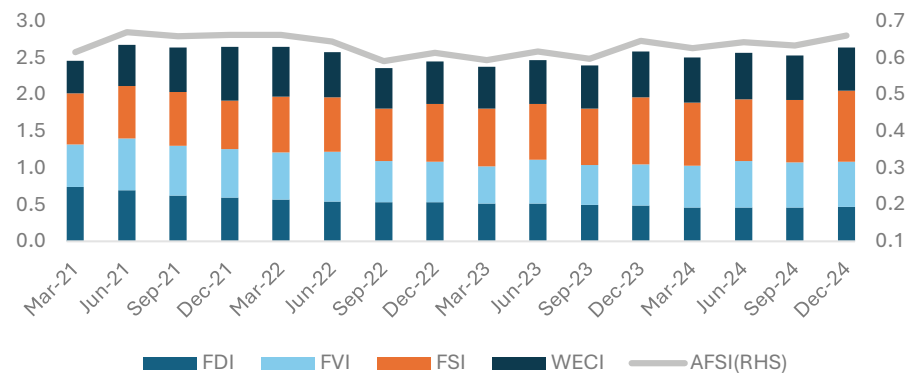
Source: Financial Services Commission

Figure 4: Macro-Financial Index



Source: Financial Services Commission

Figure 5: AFSI and Sub-Components

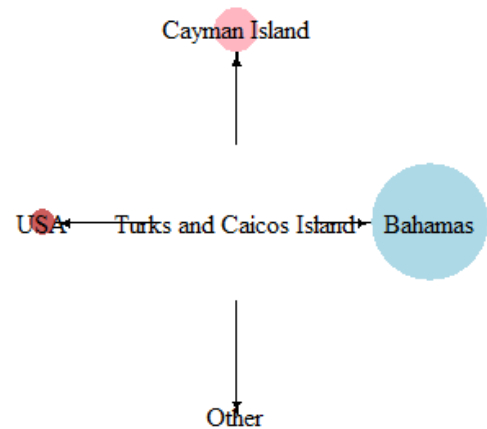


Source: Financial Services Commission

Figure 9b: Cross Border Deposit Outflow - 2024



Source: TCI Financial Services Commission



Source: TCI Financial Services Commission

Table 3: Reinsurers Ratings

Reinsurer	Domiciled	AM Best Rating
R&V Versicherung AG	Germany	AM Best; Not Rated (S&P: A+)
Swiss Re	Switzerland	A+ (Superior)
Munich Re	Germany	A+ (Superior)
Hannover Ruck	Germany	A+ (Superior)
SCOR Re	USA	A (Excellent)
Everest Re	Bermuda	A+ (Excellent)
Transatlantic Re	USA	A++ (Superior)
Shelter Re	USA	A (Excellent)
Lloyds	UK	A+ (Superior)
Partner Re	Bermuda	A+ (Superior)

Sources: AM Best, Standard & Poor's

Table 4: Banking Sector's Annual Financial Soundness Indicators

Ratio	Dec - 20	Dec - 21	Dec - 22	Dec - 23	Dec - 24
Capital Adequacy					
Regulatory Capital / Risk -weighted Assets	29.6	25.4	31.4	38.9	38.8
Regulatory Tier I Capital / Risk -weighted Assets	27.3	24.2	28.4	33.9	34.1
Total Capital / Net Assets	15.6	13.2	13.5	16.8	17.1
Asset Quality					
Non-performing loans / Gross Loans	6.0	4.5	3.0	2.9	2.8
Non-performing loans net of provisions for loan losses / Total Capital	1.1	1.0	-0.8	0.3	0.5
Provision for loans losses / Gross Loans	5.6	4.1	3.4	2.8	2.5
Non-performing Loans net of provision for loan losses / Paid -up capital	3.5	3.4	-3.1	1.4	2.5
Earning and Profitability					
Return on Assets (Net profit / Average net assets)	0.5	1.6	2.0	4.2	4.1
Return on Equity (Net profits / Average total capital)	3.4	12.0	16.3	28.6	25.7
Net interest income / Gross income	69.1	55.3	62.1	72.2	68.0
Non-interest expenses / Gross income	81.5	46.7	45.9	30.3	36.1
Liquidity					
Liquid assets / Total assets	55.4	62.2	61.0	59.2	64.6
Liquid assets / Short -term liabilities	65.4	72.6	70.8	72.8	78.7
Gross Loans / Customer Deposits	59.2	42.5	39.1	42.6	41.0
Liquid assets / Total deposits + borrowings	66.6	73.8	71.3	72.4	79.3

Source: TCI Financial Services Commission

Figure 7: Decomposition of the Changes in Capital Adequacy in Alternative Scenarios

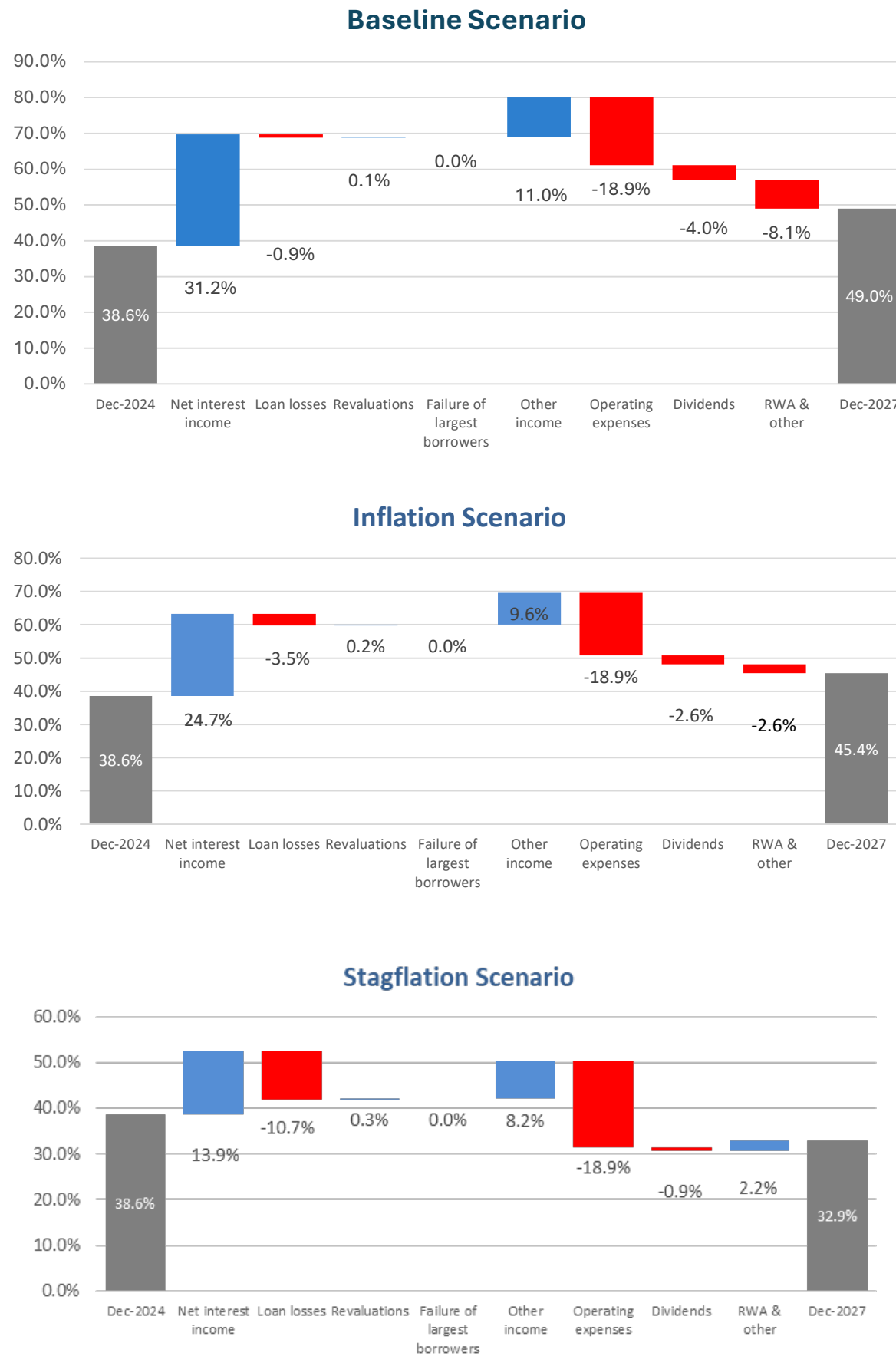
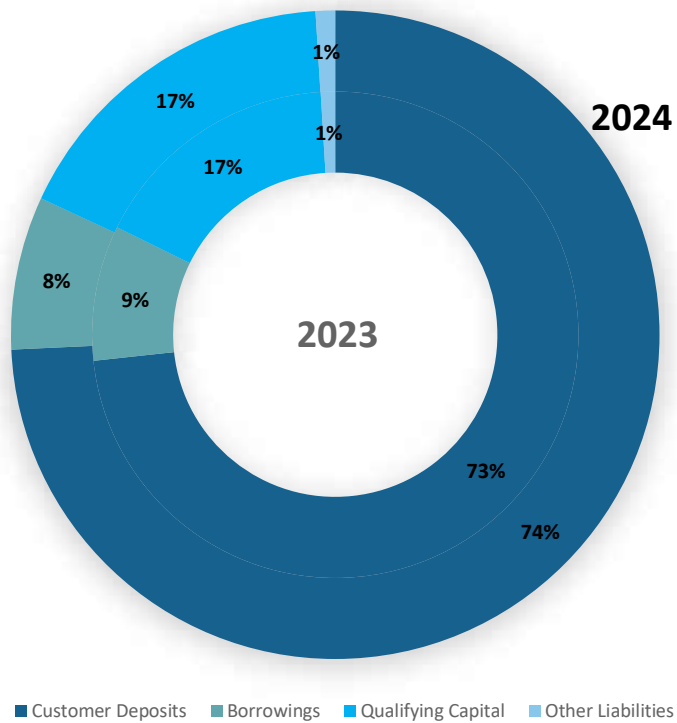
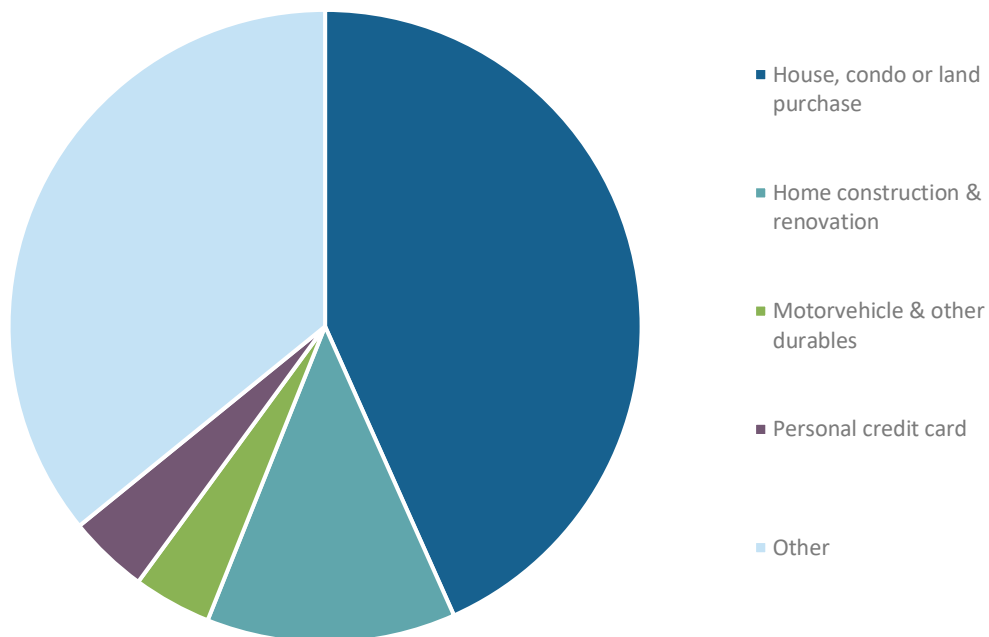


Figure 15: Bank Funding Sources



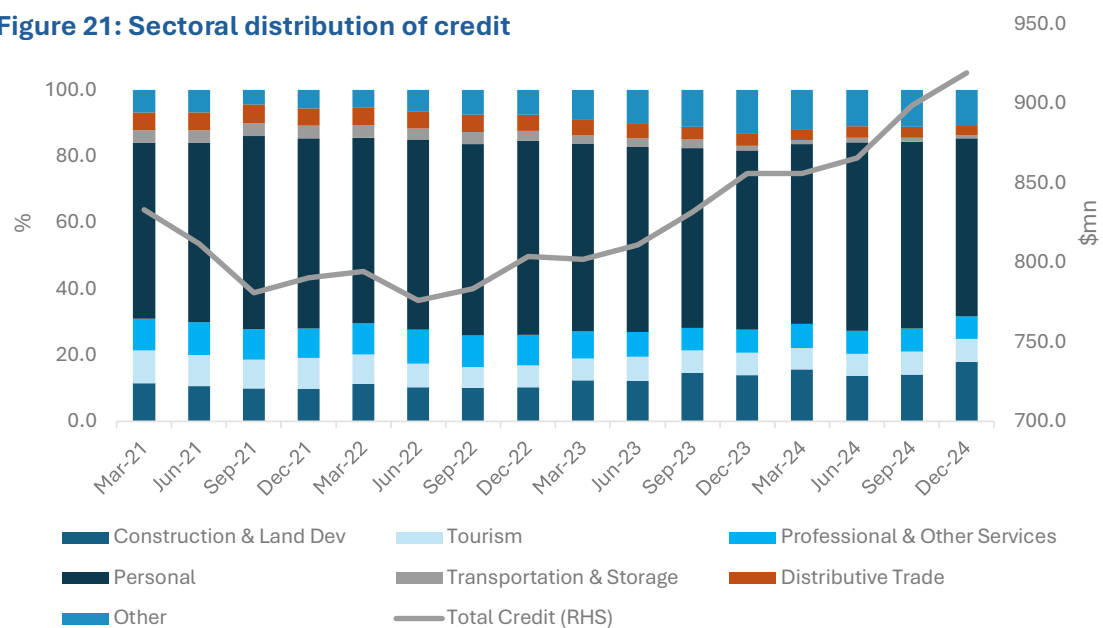
Source: Financial Services Commission

Figure 20: Personal loans detailed breakdown



Source: Financial Services Commission

Figure 21: Sectoral distribution of credit



Source: Financial Services Commission

Appendix B – Stress Test Assumptions

Liquidity Stress Testing

The following assumptions were used in the liquidity test:

- a) Daily attrition rate of 20% and 5% in demand and time deposit runs, respectively.
- b) 50% of (remaining) liquid assets would be available on any given day to offset deposit withdrawals.
- c) Illiquid assets are not available to offset deposit withdrawals.



Turks and Caicos Islands Financial Services Commission

Financial Stability Report 2024

PO Box 140
930 Leeward Highway
Venetian Road Settlement,
Providenciales
Turks and Caicos Islands
Telephone: (649) 946-5314

PO Box 79 Building C, Waterloo Plaza
Waterloo Road
Grand Turk
Turks and Caicos Islands
Telephone: (649) 946-2369
Email: fsc@tcifsc.tc
Website: www.tcifsc.tc