# SIR ARTHUR LEWIS INSTITUTE OF SOCIAL & ECONOMIC STUDIES

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to a **Research Seminar Presentation**

by **John Martin, PhD Candidate**

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in the **SALISES Conference Centre, UWI**


## ABSTRACT

**Measurement of Systemic Risk in the Caribbean – The Case of Trinidad and Tobago and Determining the Impact of the Global Financial Crisis on the Caribbean**

Since the global crisis, interconnectedness, systemic risks and determination of systematically important financial institutions (SIFIs) have since caught the attention of global financial regulators. Many countries are now measuring the systemic risk of their financial system in response to the global crisis of 2008. In fact, the Basel Committee on Bank Supervision has developed a framework for measuring systemic risk and all countries in the Basel jurisdictions are expected to measure their systemic risk and determine their systemically important financial institutions (SIFIs) using this approach. This framework allows for easy measurement of countries' system risk because it addresses the data complications associated with the traditional measures of systemic risks. The Basel framework is based on five key indicators which are largeness in size, interconnectedness, substitutability, cross-jurisdictional activities and complexity.

Like the developed countries that were affected by the global financial crisis of 2008, it is therefore very important that the Caribbean be prepared to withstand the effects of another global financial crisis and to prevent a domestic financial crisis. This will mean that it is necessary that the SIFIs in the Caribbean be determined and the systemic risk measured. This study attempts to achieve this using Trinidad and Tobago as a case study. The reason for this is that financial institutions in Trinidad and Tobago collapsed in the era of the global financial crisis which had a contagious effect locally and regionally.

Knowledge of the level of systemic risk can serve as an indication as how close financial institutions are from collapsing and how close Caribbean countries are from a financial crisis. This knowledge can inform regulators which financial institutions require extra monitoring and increased capital requirements. Therefore, it is very important that Caribbean countries respond to the global crisis by determining their SIFIs and measuring their systemic risk.  In measuring system risk for Trinidad and Tobago, the Basel framework will be preferred to other measures of systemic risk due to its flexibility over the other measures as stated in the literature.

**Key Words**: Systemic risk, Basel framework, systemically important financial institutions, size, interconnectedness, substitutability and complexity.