



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

TURKS AND CAICOS ISLANDS

Financial Stability Report Review, Credit Risk
Modelling, and Stress Testing

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Turks and Caicos Islands
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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The technical assistance (TA) missions to the Turks and Caicos Islands (TCI) aimed to enhance the Financial Services Commission's (TCIFSC) financial stability efforts. The missions reviewed the Financial Stability Report (FSR), developed sectoral credit risk models, and established a stress testing (ST) framework. They provided tools for assessing non-performing loans (NPLs) and conducting STs under various macroeconomic scenarios. Results indicate that TCI's banking sector is resilient, benefiting from robust initial capital. Recommendations include refining the FSR's structure, improving credit risk modeling, and establishing regular ST exercises. These TA missions reinforce TCIFSC's capacity to identify and address financial vulnerabilities effectively.

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The contents of this document constitute a high-level summary of technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of Turks and Caicos Islands (the "CD recipient") in response to their request for capacity development. Unless the CD recipient specifically objects within 30 business days of its transmittal, the IMF will publish this high-level summary on IMF.org (see [Staff Operational Guidance on the Dissemination of Capacity Development Information](#)).

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Background

The Turks and Caicos Islands (TCI) is a British Overseas Territory with a financial sector representing 275% of GDP, dominated by commercial banks (65% of total assets) alongside investment and insurance sectors. Given TCI's reliance on tourism and vulnerability to external economic shocks, the TCI Financial Services Commission (TCIFSC) sought technical assistance (TA) from the IMF to reinforce its macroprudential oversight. The TCIFSC has published a Financial Stability Report (FSR) since 2015, aiming to track and communicate financial risks within the sector. In 2024, the IMF provided TA to support TCIFSC's objectives by reviewing the FSR, enhancing credit risk modeling, and building a multi-factor, multi-period stress testing (ST) framework. This TA is critical to equip TCIFSC with the analytical tools necessary to detect, assess, and mitigate financial vulnerabilities in a rapidly evolving economic environment.

Summary of Findings

The IMF's technical assistance missions identified key areas for enhancing the financial stability work of the TCIFSC. The review of the TCI Financial Stability Report (FSR) revealed a need for a more streamlined structure, focusing on central risk themes and including emerging risks, such as climate and cyber threats. A Bayesian Model Averaging (BMA) approach was introduced for credit risk modeling, enabling TCIFSC to assess sectoral impacts on non-performing loans (NPLs) under different macroeconomic scenarios. Furthermore, a new multi-factor, multi-period stress testing (ST) framework was developed, incorporating both baseline and adverse scenarios to gauge banks' resilience. Initial tests indicate TCI's banking sector is generally resilient, supported by robust capital adequacy. Recommendations include regular scenario testing, improvements in the FSR's communication strategy, improved data collection and in-house handling, and continued collaboration with the Ministry of Finance for scenario generation, ultimately strengthening TCI's financial stability and risk management capabilities.

Summary of Recommendations

The missions recommended several key actions to strengthen the TCIFSC financial stability framework. First, the FSR should adopt a streamlined structure, emphasizing central risk themes and integrating new sections on climate and cyber risks. TCIFSC is encouraged to enhance its credit risk modeling using the Bayesian Model Averaging (BMA) approach to produce accurate, scenario-based projections of sectoral NPLs. The newly developed ST framework should be applied regularly, with exercises conducted semi-annually to capture evolving risks. Improved communication strategies for the FSR, including press releases and stakeholder presentations, will support greater transparency. TCIFSC is also advised to collaborate closely with the Ministry of Finance to refine macroeconomic scenarios and data inputs. Lastly, establishing a centralized database for risk analytics, including a collection of additional data, will facilitate better data management and enhance the overall effectiveness of TCIFSC's financial stability monitoring and reporting.