

SECURITIES INDUSTRY MARCH 2020 QUARTERLY SUMMARY

Overview

COVID-19 has been running on our radar since the end of December 2019. On March 11, 2020 a pandemic was declared by the World Health Organisation causing widespread interference in the health system, retail shopping, travel, tourism and capital markets. Many countries, including Jamaica, took radical measure in an attempt to contain the spread of the virus amongst their people, primarily to safeguard the most vulnerable in society. Several steps have been taken by the Bank of Jamaica to mitigate the economic effects. Such measures were focused on providing adequate domestic and foreign exchange liquidity, launching a GOJ and BOJ bond buying programme, reviving a brokerage interbank lenders facility and reactivating the Emergency Liquidity Facility.

During the first quarter of 2020, the main income earning industries of Jamaica were greatly disrupted which resulted in the Jamaican economy declining by 2.3 per cent when compared to the corresponding period of 2019 and contracting by 1.7 per cent in comparison to the fourth quarter of 2019. Tourism, which represents about 34.0 per cent of Jamaica's economic activities, may see lingering effects for quite some time as attitudes toward travel are permeated with fear after the primary shock. The effects of the virus are expected to weaken Jamaica's economic performance over the next 2-4 quarters and are likely to reverse the unemployment gains made last year. By extension, the business and consumer confidence is likely to deteriorate, creating lower pressure on service demand in most if not all sectors, ultimately adversely impacting the quarterly returns of local companies.

Drought conditions which also have a negative impact on growth and likely inflation continued to affect Jamaica for the reported period. The capital markets have been taking a significant hit. The stock market has now decreased by 22.3 per cent year-to-date, deviating from its bull run dating back to 2015. As a result, investors sought to take profits as their portfolios began to nose-dive towards the end of February as the COVID-19 pandemic began to take hold amidst the build-up of macroeconomic.. This of course affected the bottom line of securities dealer companies.

Financial Performance Highlights

As at March 31, 2020, there were forty-six (46) intermediaries registered by the Financial Services Commission (FSC) to operate in Jamaica. Of these forty-six (46) licensed intermediaries, the analysis will focus on thirty (30) securities dealer companies whose core business is dealing in securities.

There was a general quarter-over-quarter (q-o-q) decline in the balance sheet performance of the securities dealer companies for March 2020. Total assets stood at J\$632.5 billion, a J\$18.1 billion or 2.8 per cent decline from the J\$650.6 billion reported in December 2019. On a year-over-year (y-o-y) basis, however, the results as at March 2020 represented a J\$59.8 billion or 10.4 per cent increase from the J\$572.7 billion reported for March 2019.

Balance sheet capital declined as at March 2020 when compared to December 2020. The major contributor to the decline in capital has been the effects of market prices on the investment assets portfolios of the major players in the industry. When compared to the corresponding period of last year, there was a 4.8 per cent increase in balance sheet capital (see Table 1).

The decrease in capital resulted in a decline in the average capital ratios for the securities dealer companies. The industry's capital base to risk weighted asset ratio for March 2020 stood at 19.6 per cent, a 5.3 percentage point decline when compared to the 24.9 per cent reported for March 2019 and a 3.3 percentage point decline over the previous quarter. Similarly, the capital to total asset ratio stood at 15.0 per cent for March 2020, a 0.7 percentage point decline from the 15.7 per cent reported as at March 2019 and a 2.5 percentage point decrease when compared to the previous quarter (see Table 2).

Total Funds under Management (FUM)¹ stood at J\$1.38 trillion as at March 2020 with a quarter-over-quarter reduction of 2.5 per cent. The year-over-year comparison saw an 11.7 per cent increase in FUM as at March 2020.

There was a J\$5.7 billion or 39.0 per cent quarter-over-quarter reduction in total revenues reported for March 2020. The figure reported for March 2020 also represented a 16.0 per cent decrease when compared to the March 2019 returns. The fall in revenues stemmed from a falloff in non-interest income (fees and commissions and losses on securities) for March 2020 when compared to both the previous quarter and corresponding period of 2019. Conversely, there was an increase in total expenses of J\$2.1 billion or 28.4 per cent quarter over quarter and J\$1.4 billion or 17.3 per cent over the similar period of 2019. The uptick in total expenses was due primarily to the rise in operating expenses that accounts for 66.3 per cent of total expenses for March 2020.

The impact on the capital base of the securities dealer companies was evident in the lack of profitability for the month of March 2020. The securities dealer companies reported a net loss of J\$0.03 billion for the March 2020 quarter, representing a 100.7 per cent and 101.2 per cent decline quarter over quarter and over the similar period of 2019 respectively. This return led to a negative Return on Equity of 0.03 per cent for March 2020 (see Table 2).

Table 1: Statistical information of the Securities Firms, March 2019 to March 2020

As at	Mar 19 \$'B	Jun 19 \$'B	Sept 19 \$'B	Dec 19 \$'B	Mar 20 \$'B	%age Change between Mar '19 & Marc '20	%age Change between Dec '19 & Mar '20
Balance Sheet							
Total Assets	572.7	617.2	664.7	650.6	632.5	10.4	-2.8
Total Liabilities	482.3	518.7	553.8	536.9	537.8	11.5	0.2
Total Capital	90.4	98.5	110.9	113.7	94.7	4.8	-16.7
Total Repo Liabilities(including COPs)	373.2	404.3	438.3	430.0	419.5	12.4	-2.4
Funds Under Management	1,235.20	1,266.70	1,314.20	1,346.10	1,379.44	11.7	2.5
Profit and loss	Mar 19 \$'B	Jun 19 \$'B	Sept 19 \$'B	Dec 19 \$'B	Mar 20 \$'B	%age Change between Mar '19 & Marc '20	%age Change between Dec '19 & Mar '20

¹ This amount includes pension funds and CIS funds managed by core securities dealer companies

Total Revenue	10.6	17.4	18.6	14.6	8.9	-16.0	-39.0
Non-Interest Income	5.7	11.3	14.7	9.7	3.4	-40.4	-64.9
Total Expense	8.1	8.5	6.3	7.4	9.5	17.3	28.4
Total Interest Income	4.9	6.1	3.9	4.9	5.5	12.2	12.2
Total Interest Expense	3.0	3.6	2.3	2.8	3.2	6.7	14.3
Net Interest Income	1.9	2.6	1.6	2.0	2.2	15.8	10.0
Net Profit	2.5	6.9	11.1	4.5	-0.03	-101.2	-100.7

Table 2: Selected Prudential Ratio for Securities Firms						
Ratio	Mar 19	Jun 19	Sept 19	Dec 19	Mar 20	FSC Benchmark
Capital/Risk Weighted Asset	24.9%	22.2%	22.8%	22.9%	19.6%	≥ 14%
Capital/Total Assets	15.7%	16.0%	16.7%	17.5%	15.0%	≥ 6%
Return on Equity	2.8%	7.0%	9.9%	4.0%	-0.03%	N/A