

ABSTRACT

The results suggest that current capital adequacy standard and deposit insurance premium are inadequate, based on current conditions. Additionally, the early warning system used to monitor institutions was reviewed and an alternative model was developed, using logit analysis.

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Commercial banks and finance companies are an important part of the banking sector. The prudential regulatory and supervisory structure seeks to maintain the stability and strength of these institutions. The effectiveness of this structure is therefore of special importance to the authorities.

This thesis examines the structure of the prudential regulatory and supervisory system in Trinidad and Tobago. In particular, the deposit insurance scheme and capital adequacy standards were examined and risk-based standards developed, using the option pricing model. Moreover, the early warning system used to monitor institutions was reviewed and an alternative model was developed, using logit analysis.

The results suggest that the current capital adequacy standard and deposit insurance premium are inadequate, based on current conditions. Additionally, the early warning system in use has certain inherent weaknesses which can be alleviated if a model based on logit analysis was used.

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