Caribbean Risk Management Conference 2014 and Launch of the Trinidad and Tobago Risk Management Institute (TTRMI)

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Radisson Hotel, Port of Spain, Trinidad and Tobago

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Good morning ladies and gentlemen.

Senator Fazal Karim, Minister of Tertiary Education and Skills Training

Dr. Karen Hardy, Senior Advisor in the Executive Office of the United States President, White House Office of Management and Budget

Mr. Ken Hackshaw, Managing Director, TTRMI

Chairmen, Directors and CEOs

Members of the Media

Ladies and Gentlemen

I also recognise the banks – Republic Bank Limited, First Citizens – for their involvement with this symposium this morning. Let me from the outset apologise for the fact that I will need to leave immediately upon completing my presentation.

Let me begin by thanking the Trinidad and Tobago Risk Management Institute for inviting me to give the opening remarks on The Priority of Risk Management in Government and to say how significant is the need to ensure that in every sphere of public sector management, in every state enterprise and government agency, in every large corporation there exists the leadership and will, to institutionalise risk management processes across all organization levels, and that the ownership of enterprise risk is viewed as a collective responsibility at the different levels of management regardless of functional responsibility.

In quoting from Peter Senge, the most powerful learning comes direct experience. We each have a "learning horizon," a breadth of vision in time and space within which we assess our effectiveness. However, when our actions have consequences beyond our learning horizon, it becomes impossible to learn from direct experience.

Herein lies the core learning dilemma that confronts nations and organizations: we learn best from experience but we may never directly experience the consequences of many of our most important decisions. The most critical decisions made in organizations and nations have system-wide consequences that stretch over years in our inter-connected world.

Again, from an article by the Conference Board: and I quote, ‘risk management helps us identify which strategic objectives face a threat- and from which specific, identified risks. By maintaining a discipline of questioning the context for identified risks – specifically which objectives are threatened – we can be attentive to those uncertainties that impact our important strategies and ultimately have the most impact on value creation”. End quote.

We would all be aware of the comprehensive standard published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in September 2004 whereby Enterprise Risk Management is defined as

- a process, ongoing and flowing through an entity
- effected by people at every level of the organization
- applied in a strategy setting
- applied across the enterprise, at every level and unit, and

includes taking an entity-level portfolio view of risk

- designed to identify potential events that, if they occur, will affect the entity and to manage risk within its risk appetite
- able to provide reasonable assurance to an entity's management and board of directors
- and that is geared to achievement of objectives in one or more separate but overlapping categories"

Risk management creates and protects value. It contributes to the demonstrable achievement of objectives and improvement of performance in, for example, human health and safety, security, legal and regulatory compliance, environmental protection, service quality, project management, efficiency in operations, and governance and reputation, all important criteria in developing a more competitive business environment, thereby promoting both local and foreign investment which is an important driver of the economic diversification agenda.

Developing the maturity of our risk management processes within the public and private sectors is of particular importance to the Ministry of Finance and the Economy, as our open economy creates interdependencies with our trading partners at the regional and global level, as we operate and compete in an inter-connected world. As organizations compete on a regional and global scale they face a volatile and increasingly complex operating environment. The scale, pace and impact of globalization, new competitive threats, recessionary pressures, and toughening financial and environmental regulatory demands are unprecedented, and can make the simultaneous execution of strategy and management of risk extremely challenging. In those organizations where strategic and risk management activities are still conducted in isolation and where risk is a mere after-thought to strategy-setting, the results can be disastrous.

Since 2006, the Global Risks report had been calling attention to global risks that can be systemic in nature, causing breakdowns of entire systems, and not only their component parts. The greater the interdependencies between countries and industries, the greater the potential for events to bring about unforeseen, cascading consequences.

The global financial crisis of 2009 was an unfortunate example of what can happen when the inherent risks associated with aggressive, growth-oriented market strategies are discounted, ignored or possibly never even considered. The root causes were many - failure to monitor critical assumptions underlying the business model, breakdowns in time-tested underwriting standards, failures to provide or obtain adequate disclosures, excess reliance on flawed rating agency assessments of structured products, and a focus on short-term results.

Trinidad and Tobago and our Caribbean Community were exposed to the after-shocks of these events, in terms of falling commodity prices that impacted the CL Financial Group, and the decline in tourism and travel which impacted the Caribbean tourist and holiday destinations.

Our Government established as a key priority the attainment of a Resilient, Competitive, Stable and Sustainable Economy. This priority is driven by the targeted outcomes of Economic Growth and Job Creation, Innovation, Entrepreneurship and Partnership and a Diversified

Economy. To enable the achievement of these outcomes our State Owned Enterprises, and our Publicly Held and Privately Owned Corporations must create value and pursue their profit objectives in a business world where risk is pervasive. Risk cannot be eliminated. But we must manage it by integrating strategy formulation with risk and performance management. Risk management is part of decision making. It helps decision makers make informed choices, prioritize actions and distinguish among alternative courses of action. Risk management explicitly addresses uncertainty, the nature of that uncertainty, and how it can be handled.

A governance and risk model that would apply to our State Enterprises, Ministries and Agencies would be a model which would provide an integrated approach and discipline to shape and deploy strategy, and manage the associated risks which places strategy-setting and performance and risk management in a broader strategic context by:

- Communicating and deploying strategy effectively in a consistent manner across the Enterprise;

- Proactively identifying, sourcing and mitigating the risks inherent in the strategy and understanding how the enterprise's risk profile relates to its risk appetite;
- Ensuring the seamless integration of strategic plans, risk management and performance management in the execution of the strategy.

In fulfilling the role of the Corporation Sole, it is critical that the Investments Division of the Ministry of Finance and the Economy be informed on a timely basis of any proposal by a State Enterprise to pursue a strategic option that involves the acceptance of significant risk. Assurances should be provided by the Board and management, that the particular enterprise has the financial capacity and capabilities to bear any residual risk as determined by the organization from its conduct of a formal risk assessment and risk mitigation process.

As you all can appreciate there will be need for risk management leadership, training and knowledge dissemination in the implementation of enterprise risk management processes, where these procedures have to be introduced and become embedded in the design of the business processes.

Our leaders in labour, business, civil society and politics need to work together to mitigate competitiveness risks and to strengthen our capabilities and resilience in the face of external market threats. Our internal cost of doing business, and the level of stakeholder satisfaction with the quality and timeliness of services provided by regulatory agencies may pose risks to the competitiveness of our investment promotion incentives, supporting corporate objectives and the pursuit of national outcomes for job creation. Let us reflect, that countries do not compete, companies do.

The risk of fiscal crises features as the top risk in this year's Global Risks 2014 report. It should be highlighted that unsustainable debt developments ultimately force governments to undertake painful fiscal adjustments by cutting expenditures and/or raising taxes. If such austerity is not timed well, it can trigger a deep recession and a strong increase in unemployment, a dynamic which has played out in many advanced economies since the financial crisis of 2007-2008

As the global economy continues to recover from the worst downturn in our generation, and more than 5 years after the onset of the financial crisis, the financial services industries continue to respond to challenges that have emerged from the crisis.

Financial Services

Our Government must be adequately prepared to respond to evolving dynamics in the enabling environment for the financial services industry, with up to date laws, rules and regulations. We should be sufficiently equipped with the necessary analytical capabilities and information management infrastructure to facilitate our adaptation to significant new international standards and practices to avoid compliance breaches and reporting risks emanating from AML/CTF and the FATCA reporting requirements.

We are continuing to give consideration to improving our existing financial stability framework for mitigating systemic risk and for applying heightened prudential standards for our large and complex institutions.

A high-level Task Force on Integrated Financial Regulation and Supervision, under the chairmanship of an independent consultant, has undertaken research and consultation to determine the most feasible model for integrated financial regulation and supervision in Trinidad and Tobago.

Risk intelligence strategies directed to global events help us to ensure that planned business outcomes, outputs and activities do not expose our local institutions to unacceptable levels of market risk and that our use of resources is consistent with our national priorities. Responsibility for the negative impact of strategic and operational risk events at the firm level, can no longer be ‘transferred’ to government to provide financial support, in another instance of a ‘too big to fail’ scenario.

We have recently strengthened the *Securities Act 2012* to bring it in line with international best practice, in particular on prosecuting market misconduct and manipulation as well as on measuring and evaluating risk exposure in the securities industry. We shall soon be laying in Parliament a revised *Insurance Act* which reflects the deliberations of the Joint Select Committee which worked diligently on this legislation over the past year. It has broad industry support and includes a major strengthening of regulatory capital.

A new *Credit Union Bill* with international standards and best practices from other jurisdictions will transfer supervision of credit unions from the Commissioner for Cooperative Development to the Central Bank of Trinidad and Tobago.

The Miscellaneous Provisions (*Proceeds of Crime*) Act will significantly strengthen our framework for Anti-Money Laundering and Counter Terrorism Financing activities.

Ladies and gentlemen I would like to conclude by highlighting that achieving an effective risk management framework requires continuous learning and revision and improvement of existing policies, programs and overarching legislation.

Over the next days of the conference you will become steeped in the COSO Enterprise Risk Management Frameworks, the ISO 31000 Risk management standards and all the principles and philosophies of different technical approaches to Strategic Risk, Operational Risk, Reporting Risk and Compliance Risk.

However, I would like to end on the topic of Risk Culture – the ***Tone at the Top***. Does the Board and top management team nurture a culture of challenge, where contrarian views from management peers or from ***voices from below***, are heard and encouraged?

These minority views may challenge the validity of strategic assumptions which drive particular strategy proposals. But these minority views, if they go unheeded, may herald an organization embarking on a strategic journey and direction from which there is no return. A robust risk decision-making process, embraces a culture acknowledging the validity of different perspectives, healthy skepticism and the courage to speak up, while promoting a contrarian view.

I congratulate Trinidad and Tobago Risk Management Institute on its launch today and the Caribbean Risk Management for hosting a vitally important conference.

The issue of risk is extremely important and I am sure the Institute will be uniquely poised to educate executives, students and the business community on issues related to effective risk assessment within the management process, as well as on risk culture building, development of new evidence-based risk management and mitigation policies, integration with internal control processes and the ongoing oversight in effective solutions implementation.

As Minister of Finance and the Economy, I am heartened by your presence this morning. I wish you all success in your endeavours.

Ladies and gentlemen, I thank you.