Feature Address By

Senator, the Honorable Larry Howai

Minister of Finance and the Economy

at the

InfoLink Services Limited Conference

On The Theme

Banking on the Future: Creating a safer more secure Financial Industry

Topic

"Government and the Financial Industry– Partnerships for Success"

Wednesday 13th May, 2015

8:50 A.M. – 9:30 A.M.

Hyatt Regency, Port of Spain

Thank you Chairman.

Mrs. Glynis Alexander-Tam, General Manager of InfoLink Services Limited;

Mr. Craigg Ballance, Consultant, e-finity group incorporated;

Members of the Board of Directors of InfoLink Services Limited;

Distinguished members of staff of both Infolink Services Limited and e-finity group incorporated;

Specially invited guests;

Members of the media;

Good morning.

It is indeed a pleasure to be invited to share some remarks with you on the future of banking and the domestic financial services industry.

Let me first thank and congratulate InfoLink Services Limited and E-Finity Group Incorporated as well as the various other sponsors for convening this important two-day conference on creating a more secure Financial Industry.

My talk today will focus on the performance of the local economy; the domestic financial industry in terms of its operations and regulation; and my expectations for the future of the domestic financial sector.

Domestic Economic Conditions

Trinidad and Tobago's economic metrics indicate that the economy is fundamentally strong. As at the end of 2014, our external position remained robust with US$10.8 billion in international reserves (representing an import cover ratio of 12.2 months of imports) and we also have the Heritage and Stabilization Fund stood at US$5.6 billion. Inflation is well contained and in single digits, unemployment remains low, and there was a small surplus on the Government accounts of TT$47 million at the end of the first half of the current fiscal year.

Notwithstanding the recent adjustment to our sovereign debt rating, we are still rated as an investment grade destination fully capable of meeting our debt servicing obligations as and when they fall due.

We expect our external position to remain strong with current account surpluses and strong FDI inflows particularly into our energy sector, two such major investments are BP's Juniper platform and the Mitsubishi /Massy Corporation investment in an $850 million plant to produce methanol and dimethyl ether.

Overview of the Financial Services Industry

The latest available data suggest that at the end of 2013 the financial system of Trinidad and Tobago accounted for approximately 12 percent of GDP, with a total asset base of over TT$300 Billion. Commercial banks which have traditionally dominated the financial system accounted for 45 percent of total assets. Insurance companies, the second largest institutional group within the financial system, account for 16 percent of total assets, this is followed by occupational pension funds at 13 percent. Other organisations such as the National Insurance Board (9 percent), Unit Trust Corporation (8 percent), Credit Unions (3 percent), Non-Bank Financial Institutions (3 percent), Development banks (2 percent) and the Deposit Insurance Corporation (1 percent), make up the remaining asset base of the domestic financial system.

Notwithstanding the strong asset position, excess liquidity and a low interest rate environment have combined to reduce the income growth and profitability in the domestic financial system last year. These conditions persist and our expectation is for moderate growth in profits this year, apart from exceptional items.

Some of you may know of the role played by our indigenously created financial institutions in introducing information technology into banking. For example First Citizens was the first to introduce mobile telephone and internet banking domestically.

With that said, technology is expected to continue playing a pivotal role in the development of the Trinidad and Tobago economy as the financial services industry is the link between the real economy and monetary sector. The stronger this link, the more resilient will be the real economy. Indeed during my tenure at the head of First Citizens, I recall that InfoLink Services limited came into existence with a technology platform that integrated the ATMs of the various commercial banks. Customers can now withdraw cash from any bank branch that is conveniently located to them, irrespective of whether they are a customer of that bank. The InfoLink system has also facilitated point of sale payments which have added a new dimension of efficiency and safety to our retail payments system.

For the foreseeable future, banking will face challenges and opportunities from new technology and increasing regulation which will reshape the industry and require new business models. Technology change will continue as a potent enabler in the provision of increased services and reduced cost. It will also result in changing priorities and opportunities for growth as a result of demographic changes.

Last week, I laid new financial regulations in the Parliament to facilitate electronic payments by the Government. Although private industry has long adopted electronic payments, Government has been slow to move . Payments by Government offices are still made by cheque and the bulk of customer payment is till ‘over the counter’ In the Finance Act 2014, I introduced changes to the Excehquer and Audit Act to allow for the Government to make and receive electronic transactions. Last week, I laid the associated regulations and we now commence the process of introducing electronic payments which will be gradually rolled out over an 18-24 month period in Government offices.

My vision is to see the Government as an active participant in making and receiving internet payments, debit and credit card transactions and becoming an active participant in the Real Time Gross Settlement System and the Automated Clearing House. This means that citizens will have the convenience and flexibility of paying for Government services from home and not necessarily having to walk with exact cash to do a transaction at a Government office.

In today’s financial environment stability is paramount and central banks around the world are heavily involved in managing and regulating markets. Governments are directing the activities of the financial system to advance policy objectives such as preventing the financing of terrorism and money laundering, promoting financial inclusion and providing financing to particular sectors to aid in economic development.

Regulation

On the regulatory side, we have strengthened the legislation of the Securities and Exchange Commission to give it greater powers to regulate the market participants under its jurisdiction. A new Insurance Bill was taken before

Parliament and has been referred to a Joint Select Committee for further study and deliberation.

This new Insurance Bill seeks to strengthen the Central Bank's responsibility for the general administration of the Insurance Act and the supervision of registrants.

Credit Unions

A Bill has also been tabled in Parliament to have the Central Bank also regulate Credit Unions in terms of the prudential side of their operations. The administrative side of their operations will continue to be regulated by the Commissioner for Co-operative Development in the Ministry of Labour and Small and Microenterprise Development.

Gambling and Gaming

The Gambling and Gaming industry is another area where new regulations have to be introduced. Following extensive consultation with all stakeholders, some revenue generation initiatives and control measures were introduced in the 2013 and 2014 National Budgets. A more comprehensive piece of legislation has now been developed and should be introduced in Parliament shortly.

Policies

Systemically Important Financial Institutions (SIFIs)

The 2008/09 financial and economic crises have shown the need for financial regulations keeping abreast of the changing financial landscape in terms of new financial products and firms that conduct business of a banking nature as part of their business portfolio although they are not registered and regulated as banks.

One of the lessons learnt from the 2008 global financial and economic crisis was the significance of the interconnectedness within financial systems and the necessity for greater emphasis on the supervision and regulation of Systemically Important Financial Institutions (SIFIs). The Government views the regulation of SIFIs as imperative given that the failure of any of these institutions can threaten the smooth functioning of local financial markets and the economy and have socioeconomic implications. To this end Government has placed five financial institutions under the regulatory purview of the Central Bank of Trinidad and Tobago.

Risk Management Plan

The Government of Trinidad and Tobago being fully cognisant of the importance of our domestic financial system in lubricating the flow of financial transactions between consumers and producers/retailers, has begun the process of putting contingency measures in place in the event of any future financial crisis. To this end a National Financial Crisis Management Plan for Trinidad and Tobago is currently under development. The Plan seeks to provide an effective regime for the orderly resolution to a crisis faced by any of the financial institutions deemed systemically important and regulated by the Central Bank.

The current low interest rate environment has facilitated not only households taking on higher levels of debt, but has also created fertile ground for large non-financial retail store chains to lend to riskier households. According to the

Central Bank of Trinidad and Tobago, anecdotal evidence suggests certain retail chains, which are neither regulated by the Central Bank nor any other authority have been rapidly increasing their sales of consumer durables on hire purchase terms to households. One can surmise that as these retail stores compete for market share in an unregulated environment, there may be greater incentives for these retail stores to underprice risk. This can have a negative impact on these retail stores as well as consumers exposed to interest rate risk in the event of rising domestic interest rates and negative economic shocks.

If these activities remain unregulated they can pose a systemic risk to the domestic financial system. These are issues that are currently being addressed.

Expectations going forward

I expect that the 'shadow banking' industry will continue to grow to fill much of the gap in financial inclusion faced by consumers. These unregulated business which are not financial organisations but which carry out business of a financial nature need to be quickly identified and the necessary regulatory framework put in place to bring them under the jurisdiction of a regulator. The business models used by these shadow banking businesses needs to be carefully studied to ascertain the risk they pose to the domestic financial system.

I also expect technological innovations to play a greater role in how banks are managed and customers served. Innovations such as cloud computing, smartphones and high bandwidth all suggest that 'digital' technologies will drive huge shifts in industry value in shrinking profit margins, enabling new market entrants, redefining the manner in which services are provided, while at the same time paralyzing and driving out of the industry all those who are unwilling or unable to adapt to the changing business environment.

The Financial Services sector will continue to play an important role in the diversification thrust of the Government. The International Financial Centre (IFC) is poised to lead the way in this diversification thrust. The local financial services sector was identified as one of seven strategic business clusters for economic development in Trinidad and Tobago. The aim is to increase the contribution of the financial services sector to GDP. In 2013, with the centralisation of back office operations of two banks operating locally, we were able to create 1000 new well-paying jobs.

Building on the success to date it is projected that by 2019/2020, the operations of the TTIFC could contribute between $700-$850 million US dollars annually to GDP. This would go a long way towards diversifying the economy's production base.

Closing

There is so much that can be said of the potential of electronic technology on the financial services industry, of government's plan for implementing the necessary infrastructure and of the legislative changes that will be introduced in the coming years to facilitate and regulate the development of the industry, but time does not permit.

In closing, let me take the opportunity to thank InfoLink Services Limited and the E-Finity Group, Inc. again for inviting me to share a few words with you and other participants at this conference here today.

Trinidad and Tobago's economic fundamentals continue to be robust and strong. We also have a well-capitalised banking industry that has shown strong performances by the various participants over the years.

Going forward, we see the domestic financial industry as an important partner in the growth and diversification of our economy and as an important generator of foreign exchange for our economy. To play this role, the domestic financial industry will have to increase its investment in technology acquisition and diffusion throughout the industry. As well as adapt to the most suitable business models to remain effective in this globalised financial environment. Appropriate regulations and institutional strengthening for the management and regulation of both the conventional financial and ‘shadow banking’ industries is of paramount importance to safeguard depositors, borrowers and investors from excessive risk taking.

I wish you all success in your deliberations at this seminar as I know that this initiative is integral to the future development of our nation.

Ladies and Gentlemen, I thank you.